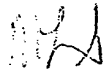


# LEHMAN BROTHERS

**DATE:** May 11, 2007

**TO:** Members of the Board of Directors of Lehman Brothers Holdings Inc.

**FROM:** Madeline L. Shapiro, Assistant Secretary 

**RE:** **MAY 15, 2007 MEETING OF THE BOARD OF DIRECTORS**

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Enclosed please find an Agenda for the May 15, 2007 meeting of the Board of Directors and accompanying materials. Also enclosed is a summary of Executive Committee and certain other corporate actions taken since the April 12, 2007 Board meeting.

The meeting is scheduled to be held in the Board Room on the 31<sup>st</sup> floor, 745 Seventh Avenue (between 49<sup>th</sup> and 50<sup>th</sup> Streets), from 12:00 p.m. to 2:30 p.m. Lunch will be served. Please bring the enclosed materials with you.

**Distribution:**

Mr. Michael L. Ainslie  
Mr. John F. Akers  
Mr. Roger S. Berlind  
Mr. Thomas H. Cruikshank  
Ms. Marsha Johnson Evans

Mr. Richard S. Fuld, Jr.  
Sir Christopher Gent  
Mr. Roland A. Hernandez  
Mr. Henry Kaufman  
Mr. John D. Macomber

**Copy to:**

Mr. Joseph M. Gregory  
Mr. Christopher M. O'Meara  
Mr. Thomas A. Russo  
Mr. Jeffrey A. Welikson

**AGENDA**

**LEHMAN BROTHERS HOLDINGS INC. ("Holdings")**

**BOARD OF DIRECTORS MEETING**

**May 15, 2007  
745 Seventh Avenue  
31st Floor – Board Room  
12:00 p.m. – 2:30 p.m.**

- 1) Approval of Minutes of Holdings' Board of Directors Meeting held on April 12, 2007. (Resolution and Minutes Attached) (Fuld)
- 2) Report of May 15, 2007 Audit Committee Meeting. (Cruikshank)
- 3) Financial Update. (Materials Attached) (O'Meara)
- 4) Presentation on Strategy. (Freidheim/ Goldfarb)
- 5) Legal Update. (Russo)
- 6) Country Risk Update. (Miscik)
- 7) Executive Session.

**WORKING LUNCH**

## HOLDINGS

### 5/15/07 BOARD MEETING

#### Item 1

**Holdings**  
**Board of Directors**  
5/15/07

**RESOLVED**, that the Minutes of the meeting of the Board of Directors held on April 12, 2007 are hereby approved in the form submitted at this meeting, and that a copy of such Minutes be placed in the appropriate Minute Book of the Corporation.

CONFIDENTIAL

LB 009199

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI\_SEC07940\_026109

05/03/07 Draft

**LEHMAN BROTHERS HOLDINGS INC.**  
**Minutes of the Board of Directors**  
**April 12, 2007**

A meeting of the Board of Directors of Lehman Brothers Holdings Inc. (the "Corporation" or collectively with its subsidiaries, the "Firm") was held in the Board Room, 745 Seventh Avenue, at 12:00 noon on April 12, 2007 pursuant to written notice.

**PRESENT – BOARD MEMBERS**

Mr. Michael L. Ainslie  
Mr. John F. Akers  
Mr. Roger S. Berlind  
Mr. Thomas H. Cruikshank  
Ms. Marsha Johnson Evans  
Mr. Richard S. Fuld, Jr.  
Sir Christopher Gent  
Mr. Roland A. Hernandez  
Mr. Henry Kaufman  
Mr. John D. Macomber

**ALSO PRESENT BY INVITATION**

Mr. Joseph M. Gregory  
Mr. Christopher M. O'Meara  
Mr. Thomas A. Russo  
Mr. Jeffrey A. Welikson

**UPDATES**

Mr. Russo reported to the Board of Directors on a potential *Wall Street Journal* article regarding the Firm and the subprime mortgage market. The Board directed questions to Mr. Russo and senior management regarding the subprime mortgage market and the Firm's business. Mr. Russo also updated the Board on the matters discussed during the September 9, 2006 joint meeting of the Audit Committee and the Compensation and Benefits Committee. Ms. Evans then provided an update on the status of certain potential director candidates.

**APPROVAL OF MINUTES**

The first order of business was the approval of the Minutes of the Board of Directors meeting held on March 20, 2007. Upon motion duly made and seconded, it

was unanimously

**RESOLVED**, that the Minutes of the meeting of the Board of Directors held on March 20, 2007 are hereby approved in the form submitted at this meeting, and that a copy of such Minutes be placed in the appropriate Minute Book of the Corporation.

#### **REPORT OF THE AUDIT COMMITTEE**

Mr. Cruikshank reported on the April 5, 2007 Audit Committee meeting. He stated that the Corporation's Controller, Mr. Edward Grieb, introduced the review of the financial statements (including the notes thereto) and the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") to be contained in the Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2007, and noted that the financial statements were consistent with the first quarter earnings press release reviewed by the Committee on March 12, 2007. He reported that Mr. Grieb discussed the procedures used to collect and validate the data used in the financial reports and MD&A.

Mr. Cruikshank also reported that Mr. Grieb reviewed the financial statements, notes and MD&A with the Committee, highlighting the disclosures regarding accounting changes and developments, including Statements of Financial Accounting Standards Nos. 158 and 159 regarding fair value measurement and disclosure requirements. Mr. Cruikshank also reported that the Firm's Chief Financial Officer, Mr. O'Meara, discussed a meeting that Messrs. Fuld and O'Meara held on April 5, 2007 with certain senior members of Firm management, certain officers who had participated in the preparation of the 10-Q and representatives of Ernst & Young and Simpson Thacher & Bartlett, to review the 10-Q, the Firm's internal control over financial reporting, disclosure controls and procedures, and the CEO and CFO certifications of the 10-Q.

Mr. Cruikshank reported that Mr. Art Tully of Ernst & Young discussed the Quarterly Review Report to the Audit Committee to be issued by Ernst & Young, including the review report letter to be included in the 10-Q. He stated that Mr. Tully reported that Ernst & Young was largely done with its review. He stated that Mr. Tully further reported that Ernst & Young was not aware of any material modifications needed for the financial statements to be in conformity with GAAP and expected to issue an unqualified review report.

Mr. Cruikshank then reported that there were no additional fees for audit, audit-related, tax or other services of Ernst & Young which required pre-approval by the Committee.

**REPORT OF THE COMPENSATION AND BENEFITS COMMITTEE**

Mr. Akers gave a report on the previous day's Compensation and Benefits Committee meeting. He stated that the Committee reviewed the compensation program for the Board of Directors and is not recommending any changes to the program at this time, having concluded that director pay levels are appropriate relative to the market based on a review of competitors' compensation programs. After discussion, upon motion duly made and seconded, it was unanimously resolved:

WHEREAS, on an annual basis, each of the members of the Board of Directors of the Corporation who is not an employee of the Corporation (each such individual, a "Non-employee Director") has historically been granted an award based on the common stock, par value \$.10 per share, of the Corporation (the "Common Stock"), at each annual meeting of the Corporation's shareholders (the "Annual Meeting");

WHEREAS, the Compensation and Benefits Committee of the Board of Directors (the "Committee") in its discretion, pursuant to a resolution dated April 11, 2007, has recommended to the Board of Directors that the Corporation continue to grant an award of either restricted stock units ("RSUs") or options to purchase shares of Common Stock ("Stock Options"), as applicable, to each of the Non-employee Directors (collectively, the "Annual Equity Retainers"), pursuant to the Lehman Brothers Holdings Inc. 2005 Stock Incentive Plan (the "SIP");

WHEREAS, the Board of Directors has determined that it is in the best interests of the Corporation and its stockholders to approve the grants of the Annual Equity Retainers pursuant to the SIP;

RESOLVED, that the Board of Directors hereby approves, and does make, the grant of an Annual Equity Retainer to each Non-employee Director, in the form of RSUs or Stock Options, as applicable, and in each case on such number of shares of Common Stock and subject to the terms as set forth on Exhibit B attached hereto.

FURTHER RESOLVED, that each Annual Equity Retainer approved and granted above shall be made pursuant to, and subject to the terms and conditions of, the SIP and the applicable form of RSU or Stock Option award agreement filed on March 31, 2006 by the Corporation with the United States Securities and Exchange Commission under a Form 8-K.

FURTHER RESOLVED, that in accordance with the provisions of the SIP, the per share exercise price of any Stock Options granted hereunder be equal to the Fair Market Value (as such term is defined in the SIP) of one share of Common Stock on April 12, 2007.

FURTHER RESOLVED, that the officers of the Corporation be, and they hereby are, authorized and directed to take such further action with respect to the foregoing plans and programs including, without limitation, preparing and distributing award agreements and/or statements, making adjustments for amounts due the Corporation by the award recipient, and executing such further documents and taking such further action as they may, with the advise of counsel, deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions, or to comply with law; and with respect to those awards which are subject to the laws of any foreign jurisdiction, the officers of the Corporation are each hereby authorized and directed to determine the form of awards to employees who are personally residing outside the United States and to take such actions and to make such amendments including, without limitation, preparing and executing such trust instruments or other documents as they may, with the advice of counsel, deem necessary or desirable to carry out the purpose and intent of the foregoing resolutions and to achieve tax efficiency and to comply with the provisions of any relevant local law or regulations in those territories, provided such actions do not result in an incremental material cost to the Corporation.

Mr. Akers reported that the Committee reviewed and discussed equity ownership levels for senior executives of the Corporation and the "liquidity guidelines" that restrict their ability to sell the Firm's stock, and that the Committee plans to continue with the existing liquidity guidelines for 2007. He also reported that the Committee reviewed "tally sheets" detailing compensation for each of the Firm's executive officers, which included a summary of total remuneration provided to the executive in the current and prior year, a summary of the total equity holdings of the executive and an illustration of potential payouts to the executive under alternative termination scenarios.

Mr. Akers then reported that the Committee reviewed and ratified RSU awards granted to senior-level new hires, and reviewed and approved a special retention award for a senior banker at the Firm. Mr. Akers also stated that the Committee discussed the proposed separation agreement for Mr. Michael Gelband, Global Head of Fixed Income, who will be leaving the Firm.

#### **RESULTS OF OPERATIONS**

Mr. O'Meara reviewed the Firm's financial results for the month of March. As part of such review he discussed, among other things, market environment, net income, revenues, expenses, return on equity, earnings per share, capital position (including leverage ratios) and risk appetite usage, as well as the performance of the Firm by business unit and by region. He compared the March results to the average month in 2006 and to budget. He compared the fiscal year-to-date results to 2006 and to budget. Mr. O'Meara also reviewed market valuations and credit spreads for the Firm and its competitors. The Board directed questions to Mr. O'Meara and senior management



regarding assets under management, cost of capital, credit ratings and leverage.

### **COUNTRY RISK UPDATE**

Ms. Jami Miscik, Global Head of Sovereign Risk Management, gave a presentation to the Board of Directors on Country Risk, including a discussion of developments in Iraq, Turkey, Iran, Pakistan and Russia. The Board directed questions to Ms. Miscik regarding Iran and Iraq, as well as the foreign investment climate in India.

### **PRESENTATION ON RECRUITING**

Mr. Scott J. Freidheim, the Firm's Co-Chief Administrative Officer, gave a presentation to the Board of Directors on Global Recruiting. He discussed the Firm's overall human capital strategy and stated that its goal was to generate shareholder value by enhancing the Firm's human capital base, deploying human capital optimally and strengthening the Firm's culture. Mr. Freidheim described that the overarching mission of Global Recruiting is to proactively identify and deliver the very best talent available for entry level positions within the Firm by systematically sourcing talent on a global basis, thereby becoming the employer of choice for the most talented individuals globally. He stated that, to accomplish this mission, the Firm must identify characteristics of its most successful leaders, identify and target the best and broadest pools of talent around the world, flawlessly execute recruiting campaigns and equip new recruits to succeed through a best-in-class on-boarding process.

Mr. Freidheim described the Firm's current talent acquisition model, including a description of the recruiting process. He provided a breakdown of the source of 2007 summer hires, indicating that 78% of the class came from core campuses, 16% from referrals, 6% from targeted recruiting and less than 1% from write-ins. Mr. Freidheim discussed recruiting performance, comparing data regarding hires in 2004 and in 2007, including data demonstrating increased cross offer wins by the Firm over its competitors.

He then turned to the key opportunities and challenges for Global Recruiting and stated that the recruiting process needs to evolve to build the foundation for the Firm's future growth. Mr. Freidheim stated that, as part of such process, Global Recruiting must define the characteristics for successful candidates, source the best talent globally, expand branding and marketing initiatives and restructure candidate assessment to evaluate specific competencies individually. He described Global Recruiting's efforts to identify characteristics that lead to long-term success at the Firm and to proactively target candidates with profiles of excellence correlated with these characteristics. Mr. Freidheim stated that these characteristics include problem solving, personal presence, communication skills, leadership, initiative and teamwork, and he correlated these qualities with example markers of success, such as recipients of academic distinction, student leaders, entrepreneurs and scholar-athletes.

Mr. Freidheim next discussed Global Recruiting's efforts to source the best talent globally. He compared the breakdown of the source of 2007 summer hires to a target model, in which the percentage of targeted candidates would increase and the percentage of candidates sourced from core campuses would decrease. Mr. Freidheim stated that the impact of implementation of this target model would be to increase the sourcing of candidates from non-core campuses, to globalize the recruiting effort and to increase the diversity of the new talent pool. He also discussed Global Recruiting's plan to significantly enhance the Firm's diversity recruiting effort. He presented data comparing the percentage of women and minorities in the analyst and associate summer classes in 2004 and in 2007, and described efforts to improve sourcing of diversity candidates, to better coordinate diversity recruiting across the Firm and to deepen relationships with select not-for-profit organizations focused on minority students.

Mr. Freidheim described Global Recruiting's strategy to use co-branding opportunities and new media technologies to increase marketing reach and impact through tailored value propositions. He described co-branding opportunities between the Firm and certain universities, as well as new marketing opportunities being developed by Global Recruiting, including development of a number of internet-based marketing initiatives. Mr. Freidheim then discussed Global Recruiting's initiative to restructure the candidate assessment process to focus on independently evaluating the characteristics of long-term success. He described the success of a pilot interviewing program, in which dedicated interviewers tested particular competencies and used scripted questions designed to probe specific competencies, in contrast to a traditional model in which all interviewers would test all competencies. The Board directed questions to Mr. Freidheim regarding employee retention and attrition, the Firm's image on campuses, the characteristics for success and the markers for these characteristics, the prevalence of targeted hiring among the Firm's peers, the cost of campus recruiting, recruiting graduates of the service academies and other matters.

Mr. Macomber left the meeting during this presentation.

#### **ANNUAL ELECTION OF OFFICERS**

Mr. Russo presented the list of officers of the Corporation for election to serve until the 2008 Annual Meeting of Stockholders, which list had been distributed in advance of the meeting. Upon motion duly made and seconded, it was unanimously

**RESOLVED**, that the individuals named on Exhibit A attached hereto be elected as officers of this Corporation in the capacities indicated beside their respective names, to serve at the pleasure of this Corporation and subject to their continued employment by this Corporation or any affiliate until the next Annual Meeting of the Board of Directors of this Corporation and until their successors have been elected and qualified; and that such officerships shall immediately cease without the necessity or acceptance of a resignation or relinquishment in the event of death,

retirement, termination, or other cessation of employment of these officers by this Corporation and its affiliates.

**LEGAL UPDATE**

Mr. Russo updated the Board of Directors on the initial public offering allocation matter.

Mr. Ainslie left the meeting following this discussion.

**PRIVATE SESSION**

Management (other than Mr. Fuld) was excused, and the Board met in private session.

There being no further business to come before the meeting, the meeting was, upon motion duly made and seconded, adjourned.

Respectfully submitted,

Jeffrey A. Welikson  
Secretary of the Meeting

Exhibit A

**LEHMAN BROTHERS HOLDINGS INC.**

**OFFICERS**

Richard S. Fuld, Jr. <sup>1,2</sup>	Chairman and Chief Executive Officer
Joseph M. Gregory <sup>1</sup>	President and Chief Operating Officer
Christopher M. O'Meara <sup>1,3,4</sup>	Chief Financial Officer, Executive Vice President and Controller
Scott J. Friedheim <sup>1</sup>	Executive Vice President and Co-Chief Administrative Officer
Ian T. Lowitt <sup>1</sup>	Executive Vice President and Co-Chief Administrative Officer
Thomas A. Russo <sup>1</sup>	Executive Vice President and Chief Legal Officer
Jasjit Bhattal	Senior Vice President and Chief Executive Officer - Asia
Michael Gelband	Senior Vice President and Global Head of Capital Markets/Fixed Income
David Goldfarb	Senior Vice President and Global Head of Strategic Partnerships, Principal Investing and Risk
Jeremy M. Isaacs	Senior Vice President and Chief Executive Officer - Europe and Asia
Theodore P. Janulis	Senior Vice President and Global Head of Mortgage Capital
Stephen M. Lessing	Senior Vice President and Head of Client Relationship Management
Herbert H. McDade III	Senior Vice President and Global Head of Capital Markets/Equities
Hugh E. McGee III	Senior Vice President and Global Head of Investment Banking
Roger B. Nagioff	Senior Vice President and Chief Operating Officer - Europe

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<sup>1</sup> Executive Officer Under SEC Rules

<sup>2</sup> Principal Executive Officer Under SEC Rules

<sup>3</sup> Principal Accounting Officer Under SEC Rules

<sup>4</sup> Principal Financial Officer Under SEC Rules

George H. Walker IV	Senior Vice President and Global Head of the Investment Management Division
Jeffrey B. Lane	Office of the Chairman
Rashid Alvi	Vice President and Assistant Secretary
Richard J. Amat	Vice President
Steven L. Berkenfeld	Vice President
Tracy A. Binkley	Vice President and Director of Global Human Resources
Shaun Butler	Vice President
Karen B. Corrigan	Vice President and Assistant Secretary
Enrico Corsalini	Vice President
John DeRosa	Vice President and Global Head of Tax
Barrett DiPaolo	Vice President and Assistant Secretary
Heidemarie Echtermann	Vice President and Co-Treasurer
Lana Franks	Vice President
Terry L. Gentry	Vice President
Edward S. Grieb	Vice President and Financial Controller
Thomas Hommel	Vice President
Paul Imbimbo	Vice President
Marcus Jackson	Vice President
James J. Killerlane III	Vice President and Assistant Secretary
Francine Kittredge	Vice President
Kurt Locher	Vice President
Timothy G. Lyons	Vice President
Mark C. Malin	Vice President
Karen C. Manson	Vice President and Assistant Secretary
Mark J. Marcucci	Vice President
Raymond C. Mikulich	Vice President
Herbert Moos	Vice President and Assistant Treasurer
Bridget E. O'Connor	Vice President
Michael J. Odrich	Vice President
Carlo Pellerani	Vice President and Assistant Treasurer
Joseph Polizzotto	Vice President

Vincent Primiano	Vice President
David Rushton	Vice President
Mark Russell	Vice President
Rose Shabet	Vice President
William Shannon	Vice President
Daniel C. Singer	Vice President
Greg L. Smith	Vice President
Martha Solinger	Vice President
Gordon Sweely	Vice President
Paul E. Sveen	Vice President
Paolo Tonucci	Vice President and Co-Treasurer
Mark A. Walsh	Vice President
Jeffrey A. Welikson	Vice President and Corporate Secretary
Lloyd Winans	Vice President
Andrew P. Wright	Vice President
Andrew Yeung	Vice President and Assistant Secretary
Nahill Younis	Vice President and Assistant Treasurer
John Baker	Assistant Vice President
Justin D. Balser	Assistant Vice President
Jordan Dorchuck	Assistant Vice President
Scott Drosdick	Assistant Vice President
Robert J. Leist	Assistant Vice President
Aida Sarmast	Assistant Vice President and Assistant Secretary
John M. Skoba	Assistant Vice President
Leo C. Trautman, Jr.	Assistant Vice President
Julianna Tucker	Assistant Vice President and Assistant Secretary
Cindy S. Buckholz	Assistant Secretary
Aaron Guth	Assistant Secretary
Madeline L. Shapiro	Assistant Secretary
Anna Walters	Assistant Secretary
Barry J. O'Brien	Assistant Treasurer
Anthony J. Taranto	Assistant Treasurer

Exhibit B

**April 12, 2007 Equity Awards to Non-employee Directors**

<u>Name</u>	<u>RSUs</u>	<u>Stock Options</u>
Ainslie, Michael	3,400	0
Akers, John	3,400	0
Berlind, Roger	3,400	0
Cruikshank, Thomas	3,400	0
Evans, Marsha Johnson	3,400	0
Gent, Sir Christopher	3,400	0
Hernandez, Roland	3,400	0
Kaufman, Henry	0	10,200
Macomber, John	<u>3,400</u>	<u>0</u>
<b>Total</b>	<b>27,200</b>	<b>10,200</b>

All RSUs vest immediately and are payable in Common Stock upon death, disability or termination of service. As of each date that a dividend is paid on Common Stock, each Non-employee Director holding RSUs is credited with a number of additional RSUs equal to the product of (A) the dividend paid on one share of Common Stock, multiplied by (B) the number of RSUs held by the Non-employee Director, divided by (C) the closing price of the Common Stock on the New York Stock Exchange on such date. Additional award terms and conditions are provided in the applicable award agreements evidencing these grants.

All Stock Options have an exercise price per share equal to the closing price of the Common Stock on the New York Stock Exchange on the date the award is made. Stock Options have a ten-year term and become exercisable in one-third increments on each of the first three anniversaries of the award date or, if sooner, upon a termination of service. Additional award terms and conditions are provided in the applicable award agreements evidencing these grants.

## HOLDINGS

5/15/07 BOARD MEETING

Item 3

CONFIDENTIAL

LB 009211

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI\_SEC07940\_026121



# LEHMAN BROTHERS

RICHARD S. FULD, JR.  
CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

May 11, 2007

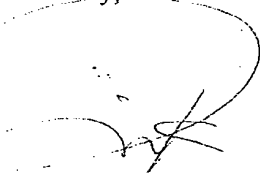
Dear Directors:

Enclosed are the materials for the Lehman Brothers Board meeting on Tuesday, May 15. The materials include the estimated financial results for April, which will be discussed at the meeting.

At this meeting, Scott Freidheim, Co-Chief Administrative Officer, and Dave Goldfarb, Global Head of Strategic Partnerships, Principal Investing and Risk, will deliver a presentation on the Firm's strategy and how we will be using our capital going forward.

I look forward to seeing you on Tuesday.

Sincerely,



RSF:aj  
Enclosures

LEHMAN BROTHERS HOLDINGS INC.  
745 SEVENTH AVENUE NEW YORK, NEW YORK 10019 TEL 212 526-7200

CONFIDENTIAL

LB 009212

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI\_SEC07940\_026122

Confidential Presentation to:

Lehman Brothers Board of Directors

Financial Information

April 2007

LEHMAN BROTHERS

CONFIDENTIAL

LB 009213

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI\_SEC07940\_026123

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◆ Monthly Financial Performance Trend	8
◆ Quarterly and Annual Financial Performance Trend	9

LEHMAN BROTHERS

# Executive Summary

## Market Environment

- ◆ Global equity market valuations were up 3% during the month, led by a 4% gain in the U.S. amid strong earnings reports. International markets were also strong, with European markets rising 3% and Asian markets up 1%.
  - Global average trading volumes in April continued to be strong, up slightly versus average year-to-date activity, and up 20% versus average month 2006 level.
- ◆ The Fixed Income market environment remained relatively unchanged, with interest rates and credit spreads remaining stable.

## Revenues / Expenses

- ◆ Second highest monthly net revenues of \$1,747 million were 12% ahead of budget, and 25% ahead of average month 2006.
  - Fixed Income Division revenues of \$655 million were 16% behind budget and 9% below average month 2006 driven by continued weakness in Residential Mortgages.
  - Equities Division revenues of \$526 million were 47% ahead of budget and 64% ahead of average month 2006 as customer activity remained strong.
  - Record Banking Division revenues of \$532 million were 81% higher than budget and more than double the average month 2006 level, primarily due to strong performance in both Equity and Debt Origination.
  - Investment Management Division revenues of \$238 million outperformed budget by 6% and were 28% higher than average month 2006, due to higher AUM and incentive fees from the private equity portfolios.
  - Principal Investments revenues of \$134 million were 51% ahead of budget and 81% better than average month 2006, due to gains from fund investments, minority investments in hedge fund managers and private equity investments.
  - Record non-U.S. revenues of \$772 million were 42% better than budget due to record revenues in Asia and strong Europe results.

- ◆ Personnel expenses were accrued at 49.3% of net revenues, consistent with prior periods. Non-personnel expenses of \$306 million were higher than budget, mainly due to higher brokerage and clearance, and business development expenses.

## Profitability

- ◆ Net income of \$395 million and EPS of \$0.68 were 15% and 16% better than budget, respectively.
- ◆ Pretax margin was 33.2%, ROE was 24.1% and ROTE was 29.6%.

LEHMAN BROTHERS

1

# April 2007 Financial Results

	Monthly Performance			Year to Date Performance		
	April 2007	Monthly Budget	% Δ	Avg. Month 2006	2007	% Δ
<i>\$ millions, except per share data</i>						
<b>Segment Revenues</b>						
Investment Banking	413	286	45%	251	1,542	6%
Capital Markets	1,075	1,052	2%	953	5,693	6%
Investment Management	259	222	17%	192	1,190	5%
<b>Total Revenues</b>	<b>1,747</b>	<b>1,560</b>	<b>12%</b>	<b>1,395</b>	<b>8,425</b>	<b>6%</b>
<b>Expenses</b>						
Personnel	861	769	12%	688	4,154	6%
Non Personnel	306	278	10%	239	1,473	4%
<b>Pre Tax Income</b>	<b>580</b>	<b>513</b>	<b>13%</b>	<b>469</b>	<b>2,799</b>	<b>7%</b>
Income Taxes	186	169	10%	154	905	5%
<b>Net Income Before Accounting Change</b>	<b>395</b>	<b>344</b>	<b>15%</b>	<b>314</b>	<b>1,894</b>	<b>8%</b>
Cumulative Effect of Accounting Change	-	-	-	4	-	-
<b>Net Income After Accounting Change</b>	<b>395</b>	<b>344</b>	<b>15%</b>	<b>318</b>	<b>1,894</b>	<b>8%</b>
<b>Additional Data</b>						
Earnings per Common Share	\$0.68	\$0.59	16%	\$0.54	\$3.26	9%
Return on Common Equity	24.1%	21.7%	+2.4pp	23.4%	23.8%	+0.4pp
Return on Tangible Equity	29.6%	26.3%	+3.3pp	29.1%	29.2%	+0.1pp
Pre Tax Margin	33.2%	32.9%	+0.3pp	33.6%	33.2%	+0.4pp
Compensation / Revenue	49.3%	49.3%	-	49.3%	49.3%	-
Effective Tax Rate	32.0%	33.0%	-1.0pp	32.9%	32.3%	-0.6pp
<b>Divisional Revenues</b>						
Fixed Income	655	778	(16)%	717	3,431	(14)%
Equities	526	357	47%	320	2,435	34%
Banking	532	294	81%	265	1,680	12%
Investment Management	238	224	6%	186	1,139	(0)%
Principal Investments	134	89	51%	74	731	62%
Banking & PIM Elimination / Other	(337)	(182)	nm	(166)	(990)	nm
<b>Total Revenues</b>	<b>1,747</b>	<b>1,560</b>	<b>12%</b>	<b>1,395</b>	<b>8,425</b>	<b>6%</b>
<b>Regional Revenues</b>						
Europe	511	371	38%	323	2,258	19%
Asia	261	171	53%	132	984	13%

LEHMAN BROTHERS

# Capital Markets

## Fixed Income

- ◆ Revenues of \$655 million were 16% below budget and 9% below average month 2006.
- ◆ Securitized Products underperformed as U.S. residential mortgage products continued to operate in a challenging environment.
- ◆ Interest Rate Products were strong in April, outperforming budget by 23% and average month 2006 by 65%; due to profitable trading strategies.
- ◆ Credit Products continued to outperform budget and average month 2006 level on solid customer activity and profitable trading strategies in CDO and High Yield.

## Fixed Income Market Conditions

- ◆ Yields on U.S. and Japanese government 10 year notes remained unchanged, while the European and U.K. comparable yields rose during the month.
- ◆ Oil prices ended April at \$67 per barrel, down 2% versus the prior month.
- ◆ Global investment grade spreads remained unchanged during the month, while high yield spreads tightened by 8 basis points.
- ◆ The Dollar weakened against the British Pound and Euro but strengthened against the Japanese Yen.

## Equities

- ◆ Revenues of \$526 million were 47% ahead of budget and 64% ahead of average month 2006.
- ◆ Customer activity continued to be strong, up 27% versus average month 2006 level.
- ◆ Execution Services revenues outperformed both budget and average month 2006 as customer activity increased 10% compared to average month 2006 level.
- ◆ Record Derivatives revenues as customer activity was nearly double the average month 2006 level.
- ◆ Prime Services revenues outperformed both budget and average month 2006 level led by strong results in Europe.

## Equity Market Conditions

- ◆ The global equity markets (as measured by the MSCI) increased 3% during the month.
  - U.S. markets were the strongest, advancing 4% versus March. European markets rose 3% while Asian markets were up 1%.
- ◆ Global average daily trading volumes remained strong in April, up slightly versus average year-to-date activity, and up 20% versus average month 2006 level.
- ◆ U.S. market volatility (as measured by the VIX) was lower on average than in March, as the spike in volatility after the sell-off at the end of February tapered off.

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# Investment Banking

## Revenue Summary

- ◆ Record monthly revenues of \$532 million were 81% ahead budget and more than double average month 2006 level.
- ◆ Record Equity Origination revenues, led by strong performance in Convertibles and Corporate Derivatives.
- ◆ Debt Origination revenues also outperformed budget and average month 2006 level, as sponsor driven activity remained strong.
- ◆ Advisory revenues were ahead of average month 2006 level but trailed budget. Advisory calendar remains solid.
- ◆ Record fee pipeline of \$1.4 billion, up 15% from March.

## Market Environment

- ◆ Announced M&A volume continued to be strong, with both April and calendar year to date activity significantly ahead of average month and full year 2006 level, respectively.
- ◆ With the high level of completed transactions in March and April, completed M&A volume (on a YTD annualized basis) is now on pace with the 2006 level.
- ◆ Equity origination volume in April was 7% better than average month YTD. On a YTD annualized basis, volume was flat to 2006, with an increase in Convertibles offsetting a decrease in IPO activity.
- ◆ Fixed income origination decreased in April but YTD activity remained solid, with robust corporate issuances offsetting weaknesses in asset and mortgage backed issuances.

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## Significant Deals in Pipeline

Advisory:	Value \$Bn	Description	Gross Fees (Estimated)
Dollar General	7.0	• Sale to KKR	22.9mm
KKR and TPG	44.4	• Acquisition of TXU Corporation	20.0mm
Triad Hospitals	6.4	• Sale to Community Health Systems	18.3mm
Sierra Health Services	2.4	• Sale to United Health	16.0mm
Cerberus Capital Mgt	4.2	• Acquisition of BAWAG Bank	15.0mm
Equity Origination:			
Man Financial	5.2	• IPO, lead manager	22.4mm
The Blackstone Group	4.0	• IPO, joint books	20.0mm
Apollo Mgt	0.6	• Convertible, lead manager	15.0mm
DuPont Fabros	0.6	• IPO, lead manager	14.7mm
Fixed Income Origination:			
TXU Corp. (KKR, TPO)	37.2	• Senior note/Bridge loan/Bank loan, joint	65.2mm
First Data (KKR)	24.0	• Senior note/Bridge loan/Bank loan, joint	59.8mm
BAWAG Bank (Cerberus Cap Mgt)	2.5	• Bank loan, joint books	28.0mm
Local Insight Media - Yellow Pages (Welsh)	1.0	• ABS, lead manager	17.5mm

## Global Market Share

	Rank	YTD 2007*	CY 2006	Lehman Share (%) YTD 2007*	CY 2006	Mkt Volume (\$ billion) Annualized 2007	CY 2006	%
Fee Share**	9	9	9	4.0	4.6			
Announced M&A	7	8	8	26.5	14.4	5,264	3,592	47%
Completed M&A	8	7	7	16.8	16.1	2,937	2,912	1%
Equity	9	9	9	3.2	3.8	719	716	0%
IPO	9	11	11	3.7	2.8	206	264	-22%
Secondary	10	10	10	2.6	3.8	336	329	2%
Convertible	9	8	8	3.9	6.2	175	122	43%
Fixed Income	6	4	4	5.6	6.2	7,321	7,118	3%
Investment Grade	7	8	8	4.9	4.4	3,019	2,650	14%
High Yield	8	9	9	6.3	5.3	190	186	2%
ABS	12	5	5	3.8*	6.2	1,277	1,541	-17%
MBS	1	2	2	8.8	8.9	1,265	1,450	-13%

\* 2007 is calendar year-to-date through 4/30/2007  
\*\* Fee share is March 2007 calendar year to date

# Investment Management / Principal Investments / Regional

## Investment Management

- ◆ Revenues of \$238 million were 6% and 28% ahead of budget and average month 2006, respectively.
- ◆ Asset Management and Private Equity revenues of \$122 million were 6% ahead of budget and 31% better than average month 2006, on higher Assets Under Management (AUM) and incentive fees in Private Equity.
  - AUM grew to \$256 billion, a net increase of \$11 billion (+4%) in the month, approximately half of which was from net inflows.
- ◆ PIM revenues of \$116 million were 6% and 24% ahead of average month 2006 level, with strength in Fixed Income and Equity products.

## Principal Investments

- ◆ Revenues of \$134 million were 51% and 81% ahead of budget and average month 2006, respectively.
- ◆ Strong results in April were due to gains from minority investments in hedge fund managers, fund investments in Europe, as well as gains from Private Equity investments.
- ◆ Revenues in Global Trading and Principal Strategies in April were in line with budget, but were significantly ahead of average month 2006 levels.

## Europe

- ◆ European revenues of \$511 million were the third highest monthly revenues ever.
- ◆ Solid results in Fixed Income, driven by Interest Rate Products and Credit Products.
- ◆ Outstanding performance in Equities was driven by continued strong customer flow and profitable trading strategies.
- ◆ Principal Investments results were strong in April due to gains from fund investments and minority investments in hedge fund managers.
- ◆ Banking revenues were behind both budget and average month 2006 due to a slower month in Advisory and Debt Origination.

## Asia

- ◆ Record April revenues of \$261 million were 53% ahead of budget, and double average month 2006.
- ◆ Equities revenues were significantly ahead of budget and average month 2006 level, driven by strength across most products.
- ◆ Fixed Income revenues were 16% ahead of budget, primarily driven by performance in Credit Products.
- ◆ Banking revenues in April were significantly ahead of budget, driven by strong Equity Origination.

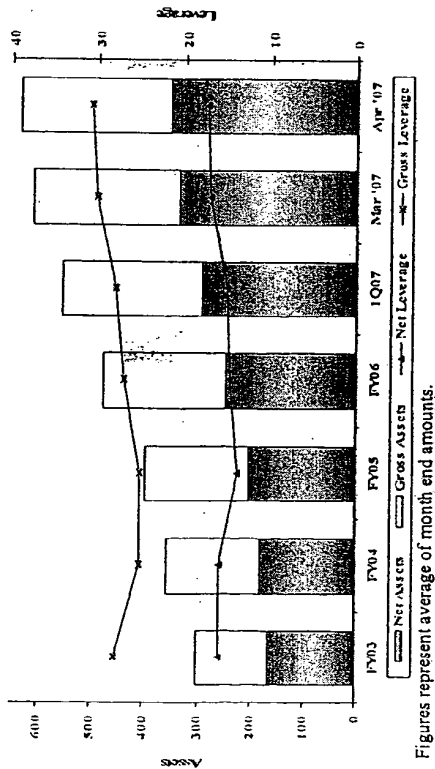
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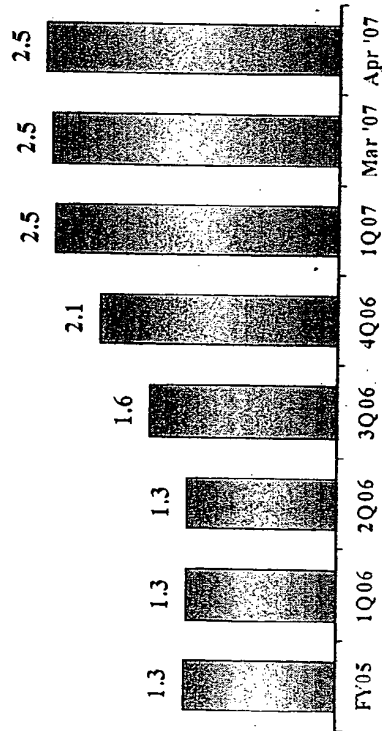
# Balance Sheet, Capital and Risk

## Balance Sheet (\$ billions) / Leverage

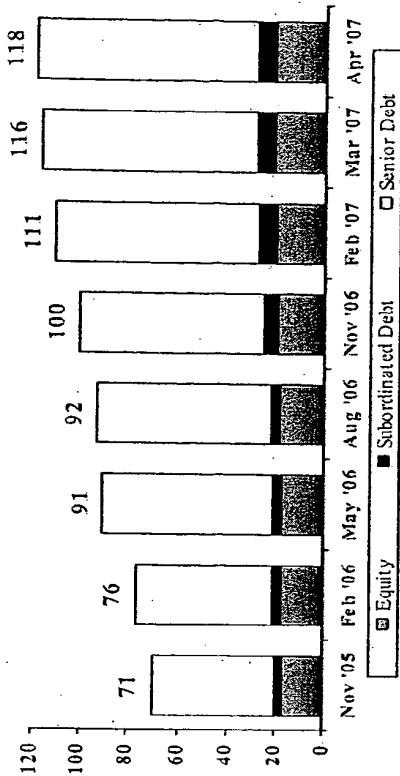


## Average Risk Appetite Usage (\$ billions)

2007 Limit: \$3.3 billion



## Long Term Capital (\$ billions)



## Long Term Capital Roll Forward (\$ billions)

	Mar '07	Issuances	Maturities	Other / Earnings	Estimated Apr '07
Senior Notes	88.2	3.1	(1.2)	0.5	90.6
Subordinated Debt	7.6	0.3	(0.9)	0.1	7.1
<b>Total Long Term Borrowings</b>	<b>95.8</b>	<b>3.4</b>	<b>(2.1)</b>	<b>0.6</b>	<b>97.7</b>
Preferred Stock	1.1			0.3	1.1
Common Equity	19.2				19.5
<b>Total Long Term Capital</b>	<b>116.1</b>	<b>3.4</b>	<b>(2.1)</b>	<b>0.9</b>	<b>118.3</b>

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# Competitor Information

Financial Statistics	LEH	GS	MS	MER	BSC	C	BAC	JPM
Price to Tangible Book <sup>1</sup>	2.6x	3.3x	2.7x	2.3x	1.8x	3.9x	3.4x	3.1x
Price to Book <sup>1,2</sup>	2.1x	2.8x	2.4x	2.2x	1.7x	2.2x	1.7x	1.5x
Price to Earnings <sup>1,3</sup>	10.2x	10.2x	10.4x	10.8x	10.2x	12.0x	10.5x	11.6x
Dividend Yield	0.8%	0.7%	1.3%	1.5%	0.8%	4.0%	4.4%	2.9%
Book Value per Share <sup>2</sup>	\$35.15	\$77.12	\$34.71	\$41.95	\$90.57	\$24.48	\$29.74	\$34.45
Market Cap (billions)	\$40	\$97	\$89	\$79	\$23	\$265	\$226	\$178
<i>Share Price Performance</i>								
2007 Calendar Year to Date <sup>1</sup>	-4%	10%	3%	-3%	-4%	-4%	-5%	8%
Calendar Year 2006	22%	56%	44%	37%	41%	15%	16%	22%
Calendar Year 2005	47%	23%	2%	13%	13%	1%	-2%	2%
Average ROE <sup>3</sup>	23%	35%	25%	26%	19%	18%	17%	14%
Average ROTE <sup>3</sup>	28%	38%	28%	30%	19%	31%	34%	22%
<i>Ten Year Debt Spreads (Basis Points)</i>								
Spread vs. 1 Month Libor (4/30/07)	44	45	47	46	45	31	30	32
Spread vs. 1 Month Libor (3/31/07)	52	52	54	55	52	36	35	40
Spread vs. 10 Year UST (4/30/07)	98	99	101	100	99	85	84	86
Spread vs. 10 Year UST (3/31/07)	105	105	107	108	105	89	88	93
<i>Long Term Debt Credit Ratings</i>								
Standard & Poors	A+	AA-	A+	AA-	A+	AA	AA	AA-
Moody's	A1	Aa3	Aa3	Aa3	A1	Aa1	Aa1	Aa2
Fitch	A+	AA-	AA-	AA-	A+	AA+	AA	AA-

1. Share price as of April 30, 2007.  
2. Book and Tangible Book values are per latest externally reported quarter.  
3. Average of last four externally reported quarters (includes the impact of BlackRock in 3Q06 for Merrill Lynch).  
4. Earnings are FY07 consensus estimates as of May 10, 2007.

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# Monthly Financial Performance Trend

\$ millions, except per share data

	April 2006	May 2006	June 2006	July 2006	August 2006	September 2006	October 2006	November 2006	December 2006	January 2007	February 2007	March 2007	April 2007
<b>Segment Revenues</b>													
Investment Banking	195	326	230	249	247	211	293	354	291	294	265	278	413
Capital Markets	906	1,053	1,018	782	1,048	784	938	1,293	1,184	1,139	1,179	1,117	1,075
Investment Management	180	212	181	218	206	204	217	219	209	283	203	236	259
<b>Total Revenues</b>	<b>1,281</b>	<b>1,591</b>	<b>1,429</b>	<b>1,249</b>	<b>1,500</b>	<b>1,200</b>	<b>1,468</b>	<b>1,866</b>	<b>1,683</b>	<b>1,716</b>	<b>1,647</b>	<b>1,631</b>	<b>1,747</b>
<b>Expenses</b>													
Personnel	631	784	705	616	740	592	724	920	830	846	812	804	861
Non Personnel	240	260	258	252	241	267	269	273	275	287	297	307	306
<b>Pre Tax Income</b>	<b>410</b>	<b>547</b>	<b>466</b>	<b>381</b>	<b>520</b>	<b>342</b>	<b>474</b>	<b>673</b>	<b>578</b>	<b>583</b>	<b>538</b>	<b>520</b>	<b>580</b>
<b>Income Taxes</b>	<b>135</b>	<b>181</b>	<b>154</b>	<b>126</b>	<b>171</b>	<b>113</b>	<b>157</b>	<b>215</b>	<b>191</b>	<b>192</b>	<b>170</b>	<b>166</b>	<b>186</b>
<b>Net Income</b>	<b>274</b>	<b>366</b>	<b>312</b>	<b>255</b>	<b>349</b>	<b>229</b>	<b>318</b>	<b>458</b>	<b>387</b>	<b>391</b>	<b>368</b>	<b>353</b>	<b>395</b>

## Additional Data

Earnings per Common Share	\$0.46	\$0.62	\$0.53	\$0.44	\$0.60	\$0.39	\$0.54	\$0.79	\$0.66	\$0.67	\$0.63	\$0.61	\$0.68
Return on Common Equity	19.3%	25.6%	21.7%	17.5%	23.9%	15.4%	21.2%	30.3%	24.6%	24.3%	22.9%	21.9%	24.1%
Return on Tangible Equity	24.1%	31.9%	26.9%	21.7%	29.6%	19.0%	26.2%	37.3%	30.1%	29.5%	28.0%	26.9%	29.6%
Pre Tax Margin	32.0%	34.4%	32.6%	30.5%	34.7%	28.5%	32.3%	36.1%	34.3%	34.0%	32.7%	31.9%	33.2%
Compensation / Revenue	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%	49.3%
Effective Tax Rate	33.1%	33.2%	33.1%	33.1%	32.9%	33.1%	33.0%	31.9%	33.0%	33.0%	31.6%	32.0%	32.0%

## Divisional Revenues

Fixed Income	708	1,051	888	546	646	618	565	904	840	650	694	593	655
Equities	285	353	333	251	330	238	339	438	407	469	423	610	526
Banking	172	322	203	245	262	206	429	444	224	319	319	286	532
Investment Management	177	203	183	207	211	178	216	221	199	259	214	228	238
Principal Investments	41	(36)	46	75	96	75	124	190	182	215	132	66	134
Banking & PIM Elimination / Other	(101)	(301)	(226)	(76)	(46)	(115)	(205)	(331)	(169)	(196)	(135)	(153)	(337)
<b>Total Revenues</b>	<b>1,281</b>	<b>1,591</b>	<b>1,429</b>	<b>1,249</b>	<b>1,500</b>	<b>1,200</b>	<b>1,468</b>	<b>1,866</b>	<b>1,683</b>	<b>1,716</b>	<b>1,647</b>	<b>1,631</b>	<b>1,747</b>
<b>Regional Revenues</b>													
Europe	262	338	398	239	388	278	283	523	345	442	435	525	511
Asia	161	101	232	77	52	64	117	146	194	168	178	183	261

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# Quarterly and Annual Financial Performance Trend

	2005				2006				2007		Full Year		Budget
	Q1 '05	Q2 '05	Q3 '05	Q4 '05	Q1 '06	Q2 '06	Q3 '06	Q4 '06	Q1 '07	Q4 '07	2005	2006	2007
<i>\$ millions, except per share data</i>													
<b>Segment Revenues</b>													
Investment Banking	683	579	815	817	835	741	726	858	850		2,894	3,160	3,600
Capital Markets	2,690	2,227	2,526	2,364	3,046	3,078	2,847	3,035	3,502		9,807	12,006	13,250
Investment Management	437	472	511	509	580	592	605	640	695		1,929	2,417	2,800
<b>Total Revenues</b>	<b>3,810</b>	<b>3,278</b>	<b>3,852</b>	<b>3,690</b>	<b>4,461</b>	<b>4,411</b>	<b>4,178</b>	<b>4,533</b>	<b>5,047</b>		<b>14,630</b>	<b>17,583</b>	<b>19,650</b>
<b>Segment Revenues</b>													
Personnel	1,886	1,623	1,906	1,798	2,199	2,175	2,060	2,235	2,488		7,213	8,669	9,687
Non Personnel	618	642	653	675	711	738	751	809	860		2,588	3,009	3,500
<b>Pre Tax Income</b>	<b>1,306</b>	<b>1,013</b>	<b>1,293</b>	<b>1,217</b>	<b>1,551</b>	<b>1,498</b>	<b>1,367</b>	<b>1,489</b>	<b>1,699</b>		<b>4,829</b>	<b>5,905</b>	<b>6,463</b>
Income Taxes	431	330	414	394	513	496	451	485	553		1,569	1,945	2,133
<b>Net Income Before Accounting Change</b>	<b>875</b>	<b>683</b>	<b>879</b>	<b>823</b>	<b>1,038</b>	<b>1,002</b>	<b>916</b>	<b>1,004</b>	<b>1,146</b>		<b>3,260</b>	<b>3,960</b>	<b>4,330</b>
Cumulative Effect of Accounting Change	-	-	-	-	47	-	-	-	-		-	-	47
<b>Net Income After Accounting Change</b>	<b>875</b>	<b>683</b>	<b>879</b>	<b>823</b>	<b>1,085</b>	<b>1,002</b>	<b>916</b>	<b>1,004</b>	<b>1,146</b>		<b>3,260</b>	<b>4,007</b>	<b>4,330</b>
<b>Additional Data</b>													
Earnings per Common Share	\$1.45	\$1.13	\$1.47	\$1.38	\$1.83	\$1.69	\$1.57	\$1.72	\$1.96		\$5.43	\$6.81	\$7.41
Return on Common Equity	24.5%	18.2%	23.0%	20.9%	26.7%	23.7%	21.0%	22.3%	24.4%		21.6%	23.4%	21.7%
Return on Tangible Equity	32.0%	23.5%	29.4%	26.5%	33.5%	29.5%	26.1%	27.6%	29.9%		27.8%	29.1%	26.3%
Pre Tax Margin	34.3%	30.9%	33.6%	33.0%	34.8%	34.0%	32.7%	32.8%	33.7%		33.0%	33.6%	32.9%
Compensation / Revenue	49.5%	49.5%	49.5%	48.7%	49.3%	49.3%	49.3%	49.3%	49.3%		49.3%	49.3%	49.3%
Effective Tax Rate	33.0%	32.6%	32.0%	32.4%	33.1%	33.1%	33.0%	32.5%	32.5%		32.5%	32.9%	33.0%
<b>Divisional Revenues</b>													
Fixed Income	2,397	2,033	2,222	1,860	2,365	2,497	2,081	2,086	2,183		8,531	9,029	9,800
Equities	661	615	915	927	1,000	1,103	914	1,015	1,299		3,117	4,032	4,500
Banking	720	680	847	874	808	740	711	1,079	862		3,121	3,338	3,700
Investment Management	443	486	518	532	554	578	602	615	672		1,979	2,349	2,823
Principal Investments	192	(58)	138	40	241	85	217	388	530		312	932	1,116
Banking & PIM Elimination / Other	(602)	(497)	(788)	(543)	(506)	(593)	(347)	(651)	(500)		(2,430)	(2,096)	(2,289)
<b>Total Revenues</b>	<b>3,810</b>	<b>3,278</b>	<b>3,852</b>	<b>3,690</b>	<b>4,461</b>	<b>4,411</b>	<b>4,178</b>	<b>4,533</b>	<b>5,047</b>		<b>14,630</b>	<b>17,583</b>	<b>19,650</b>
<b>Regional Revenues</b>													
Europe	883	750	767	757	1,007	949	1,025	1,084	1,222		3,157	4,065	4,670
Asia	305	370	358	483	557	413	361	328	541		1,516	1,659	2,150

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*Confidential Presentation to:*

# Lehman Brothers Board of Directors

## Managing the Firm

*Dave Goldfarb / Scott Freidheim*

*May 15, 2007*

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# Agenda

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- ◆ Review our strategic growth plan
  - Continue to be very active in executing our diversified growth strategy
- ◆ Key elements of our diversified growth strategy:
  - Geographies
  - Businesses
  - Capital / Equity
  - JVs / Partnerships

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# Capital Deployment Plan

Significant incremental equity capital available in 2007 (~\$6bn) – several areas of deployment

## Capital Deployment

### Stock Buy Back

- ◆ Buy back stock to avoid dilution from equity awards program (50-55m shares)

### Platform Growth

- ◆ Invest in current businesses to maintain leading franchises, gain share and increase efficiency
- ◆ Continue to address competitive gaps in key products and geographies

### Principal Investing

- ◆ Expand across asset classes, sectors and geographies in diversified manner
- ◆ Generate net income to continue strong growth trajectory
- ◆ Leverage internal deal flow

### Acquisitions / Partnerships

- ◆ Pursue opportunistically to more quickly build out business platforms, expand internationally and close competitive gaps
- ◆ Additional equity could be issued for acquisitions

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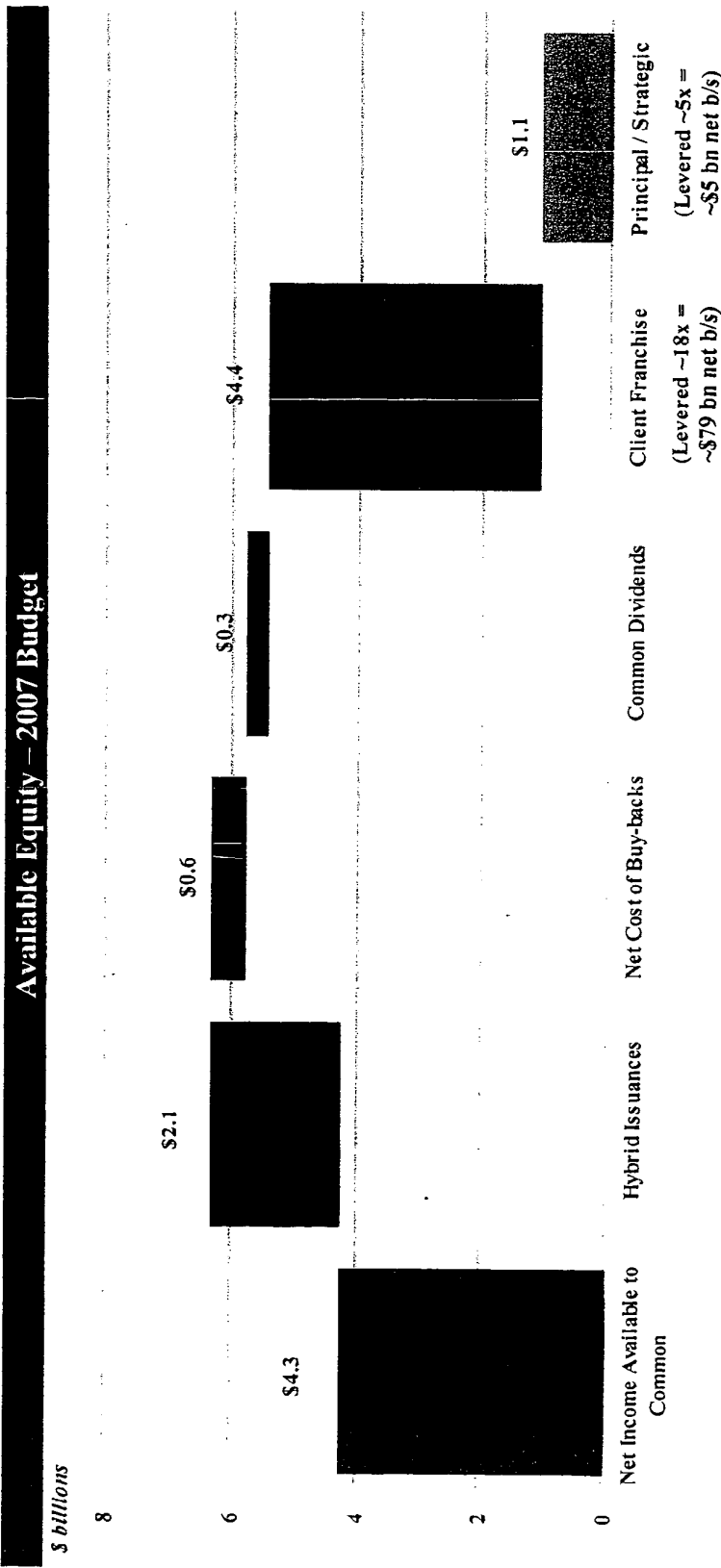
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# Capital Deployment

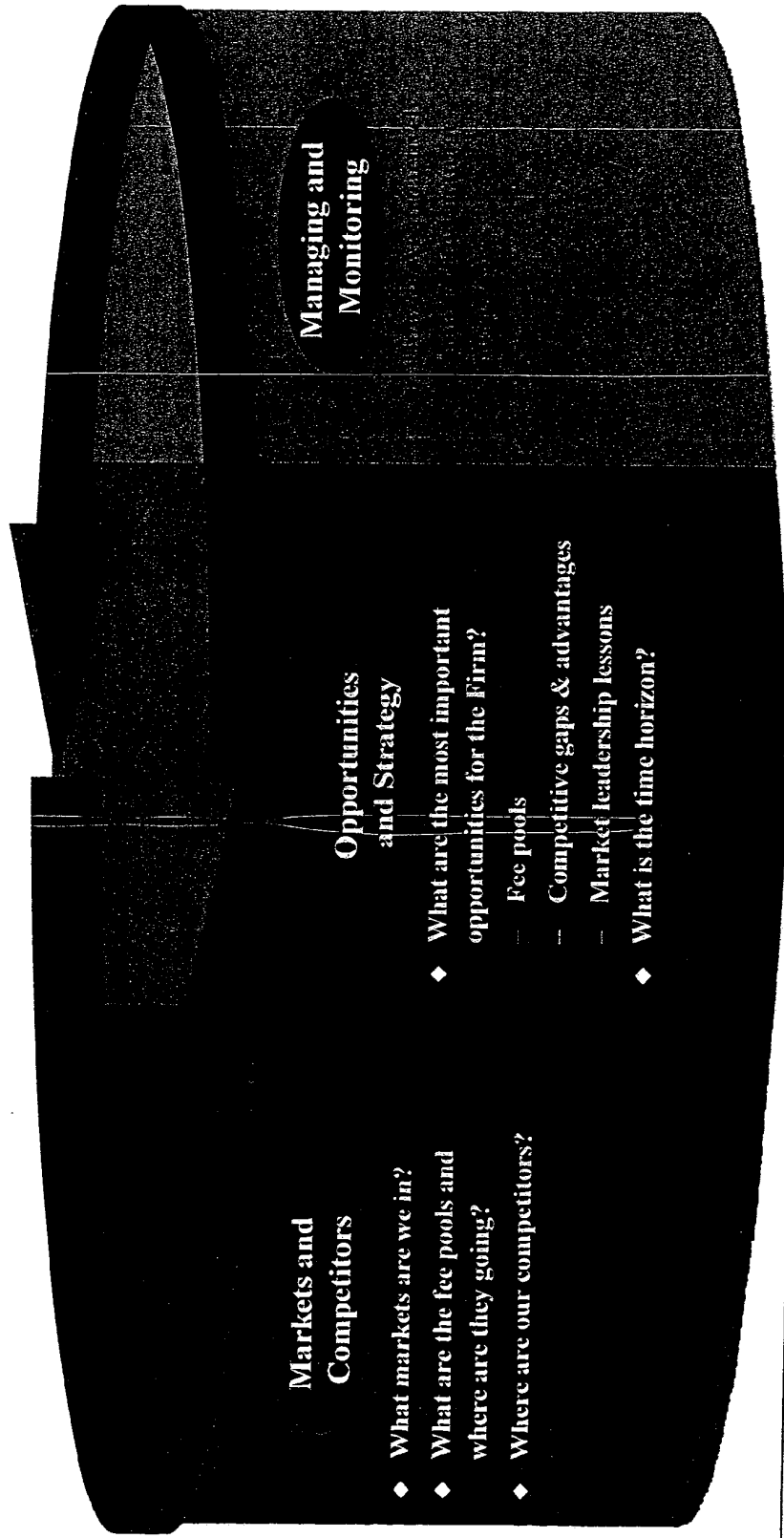
- ◆ In 2007, around 20% of net income used to off-set dilution and to pay common dividends
  - Lower percentage than previous years because buy-back costs are less, but roughly what we expect over the next 5 years
- ◆ Of the remaining capital, ~\$4.4 billion will be used to support our current client franchises
- ◆ ~\$1.1 billion available for principal and strategic growth



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# How We Identify and Execute Against Opportunities

Allocating Resources to Align with Opportunities	
◆ Capital	◆ New Initiative dollars
◆ Talent	◆ Acquisitions
◆ Compensation	◆ Joint Ventures



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# 2005 View – Market Landscape

Investment Banking Fee Pools by Country (\$B)

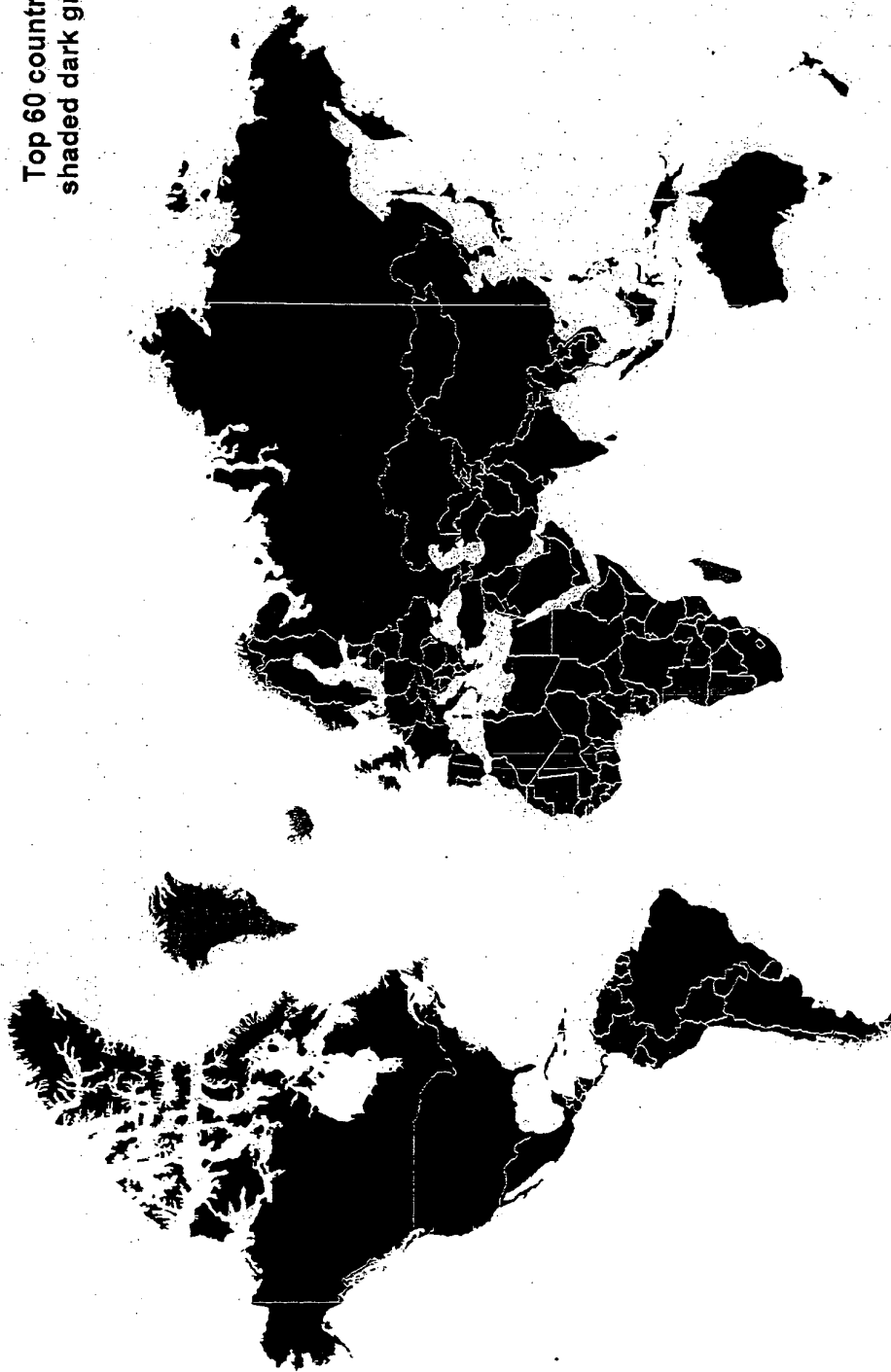


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# Current View – “Traditional” Map of the World

Country Size Based on Land Mass

Top 60 countries  
shaded dark green



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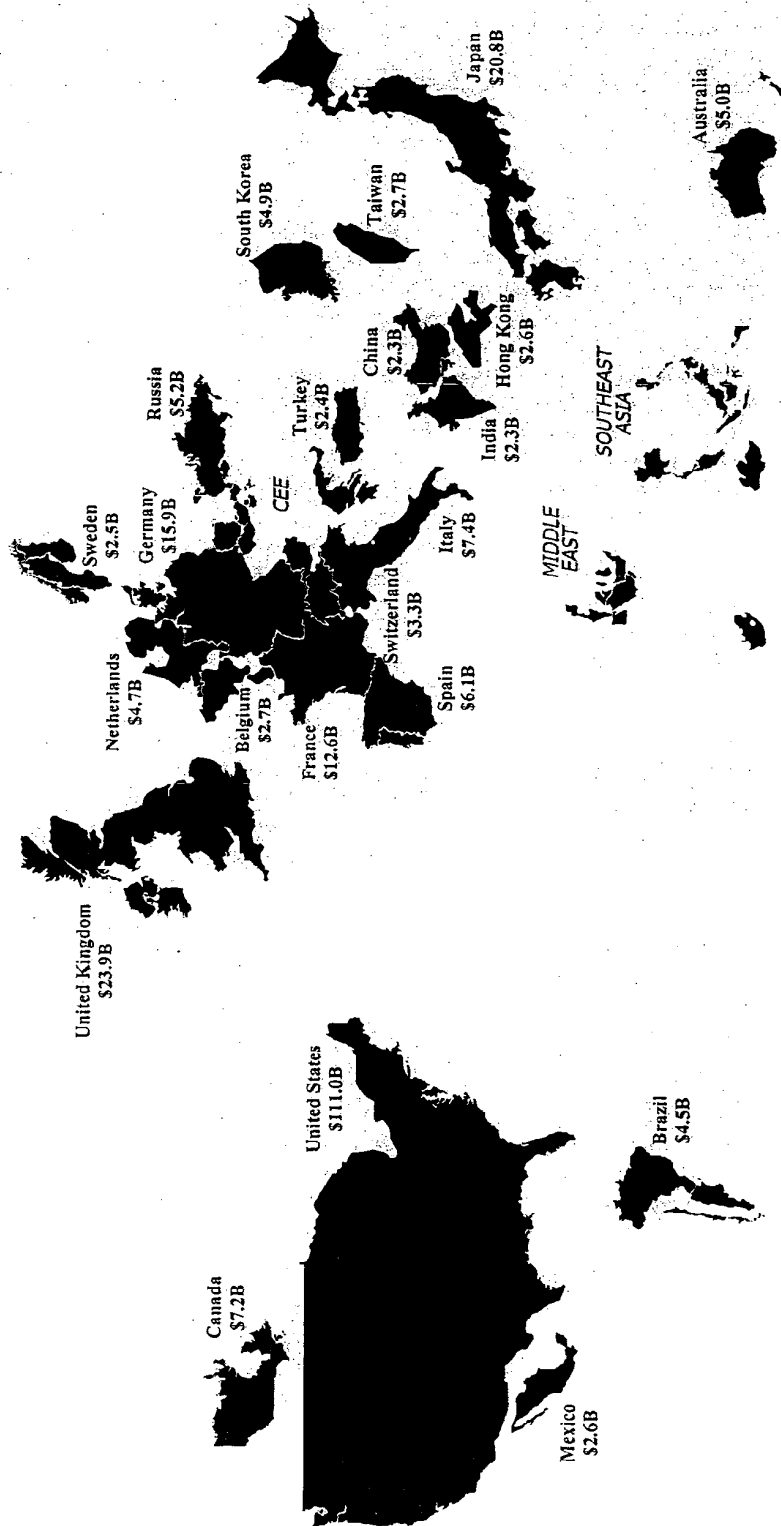
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# Current View – “Lehman” Map of the World

2006 Origination, Advisory, Secondary &amp; Principal Trading Revenues (\$B)



	1 <sup>st</sup> tier	2 <sup>nd</sup> tier	3 <sup>rd</sup> tier	4 <sup>th</sup> tier	5 <sup>th</sup> tier	10 <sup>th</sup>	Share
• 1 <sup>st</sup> tier	1 country					10 K, Japan, Germany and France	\$100B-200B
• 2 <sup>nd</sup> tier	4 countries					Italy, Canada, Spain, Russia, Australia	\$50B-100B
• 3 <sup>rd</sup> tier	5 countries					34 K, Norway, Netherlands, Brazil, India, China	\$20B-50B
• 4 <sup>th</sup> tier	18 countries					62 K, Saudi Arabia, Australia, Singapore, South Africa	\$5B-20B
• 5 <sup>th</sup> tier	37 countries						\$1B-5B

*Note: Capital markets revenues are based on domicile of underlying products. China revenues do not include those investment banking & capital markets revenues currently inaccessible to LEH.*

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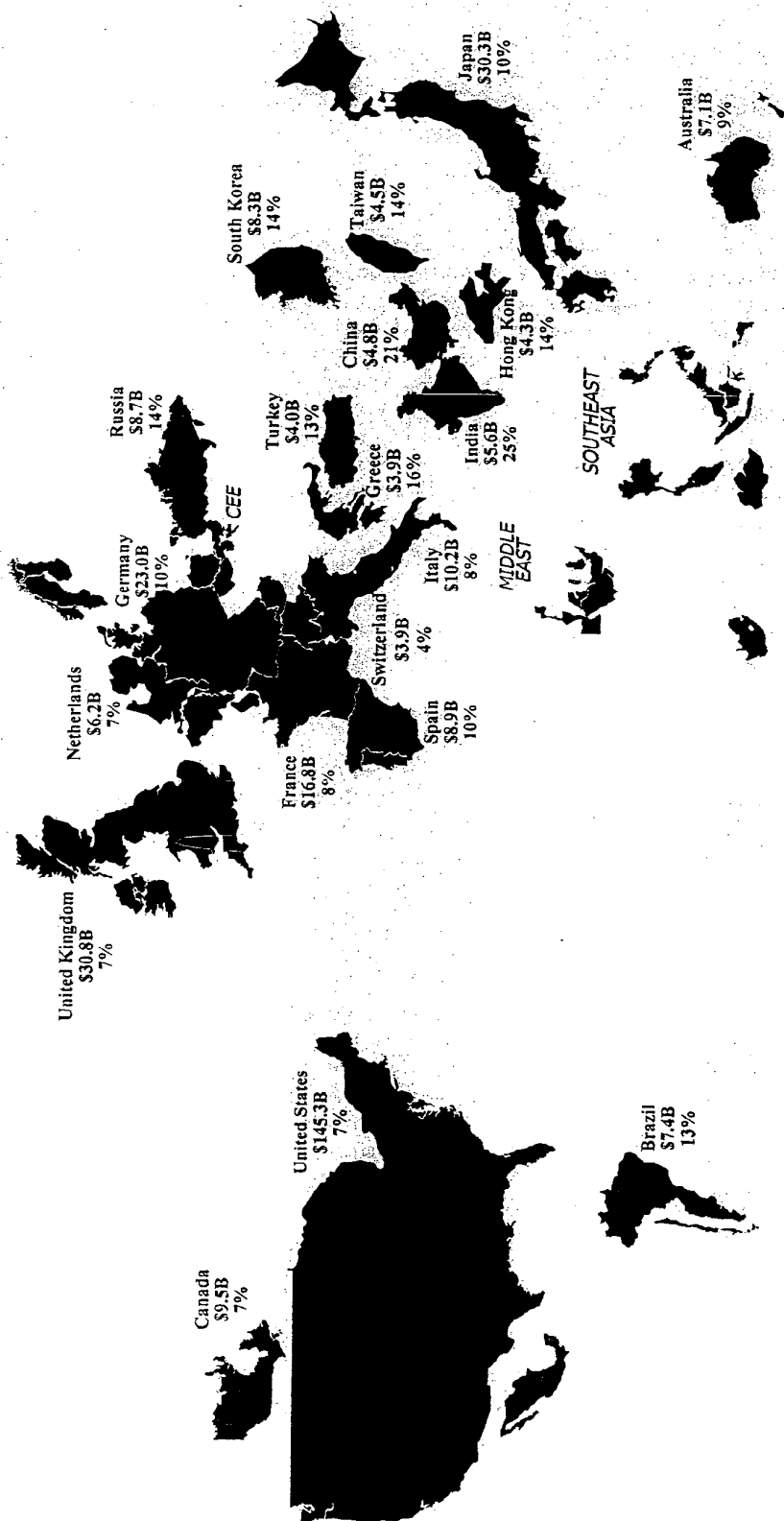
**LB 009233**

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# 2010 – “Lehman” Map of the World

## Origination, Advisory, Secondary & Principal Trading Revenues (\$B)

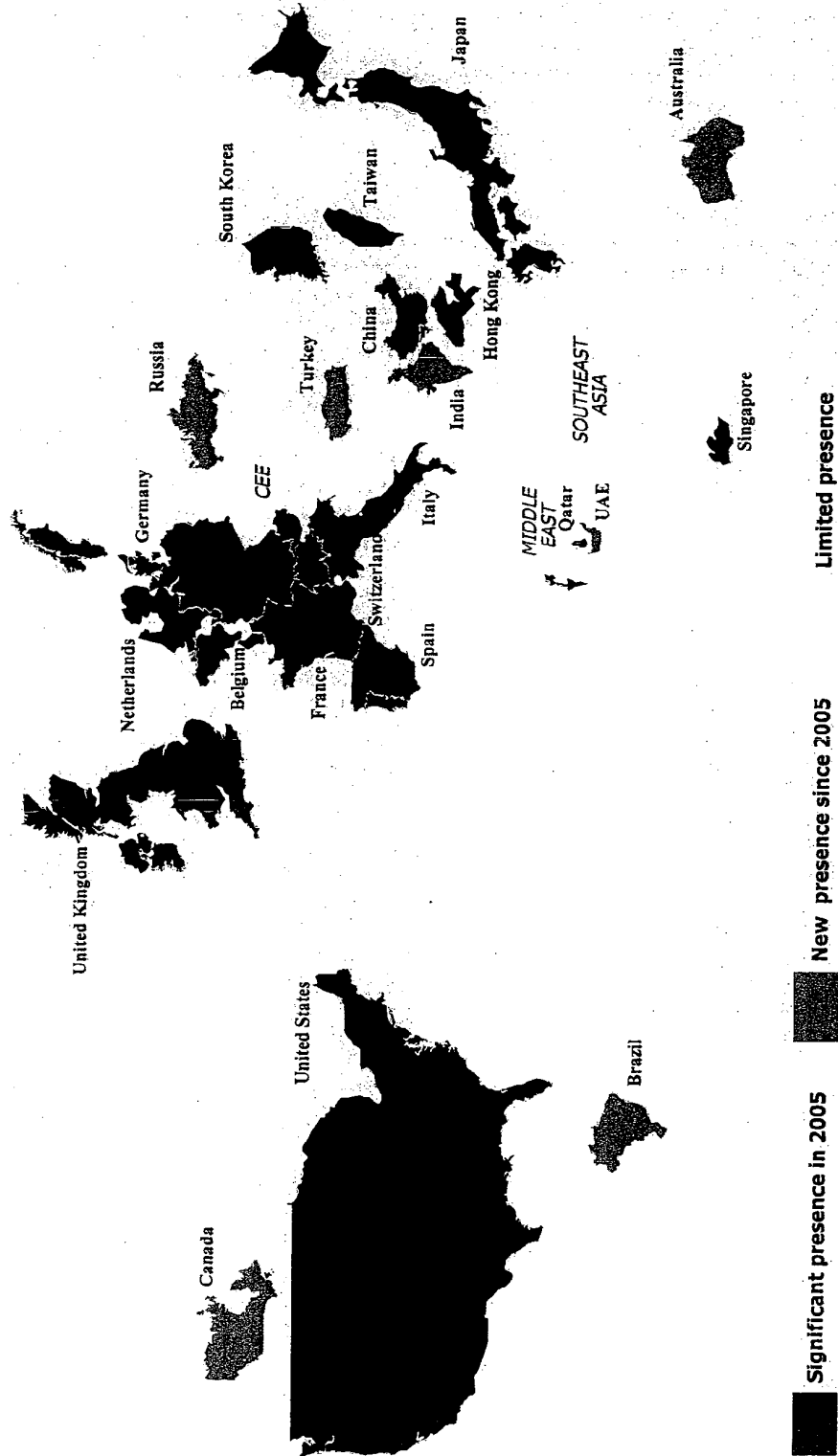


- Relative size of individual country markets similar to 2006 – (figures not large enough to change relative size of the books)
- Biggest winners: India (#21 to #14), China (#22 to #15), Brazil (#13 to #10)
- Biggest losers: Switzerland (#14 to #20), Belgium (#15 to #22)

Note: Capital markets revenues are based on domicile of underlying products. China revenues do not include those investment banking & capital markets revenues currently inaccessible to LEH.

# Geography – Lehman Brothers' Presence

Origination, Advisory, Secondary and Principal Trading Revenues (\$B)

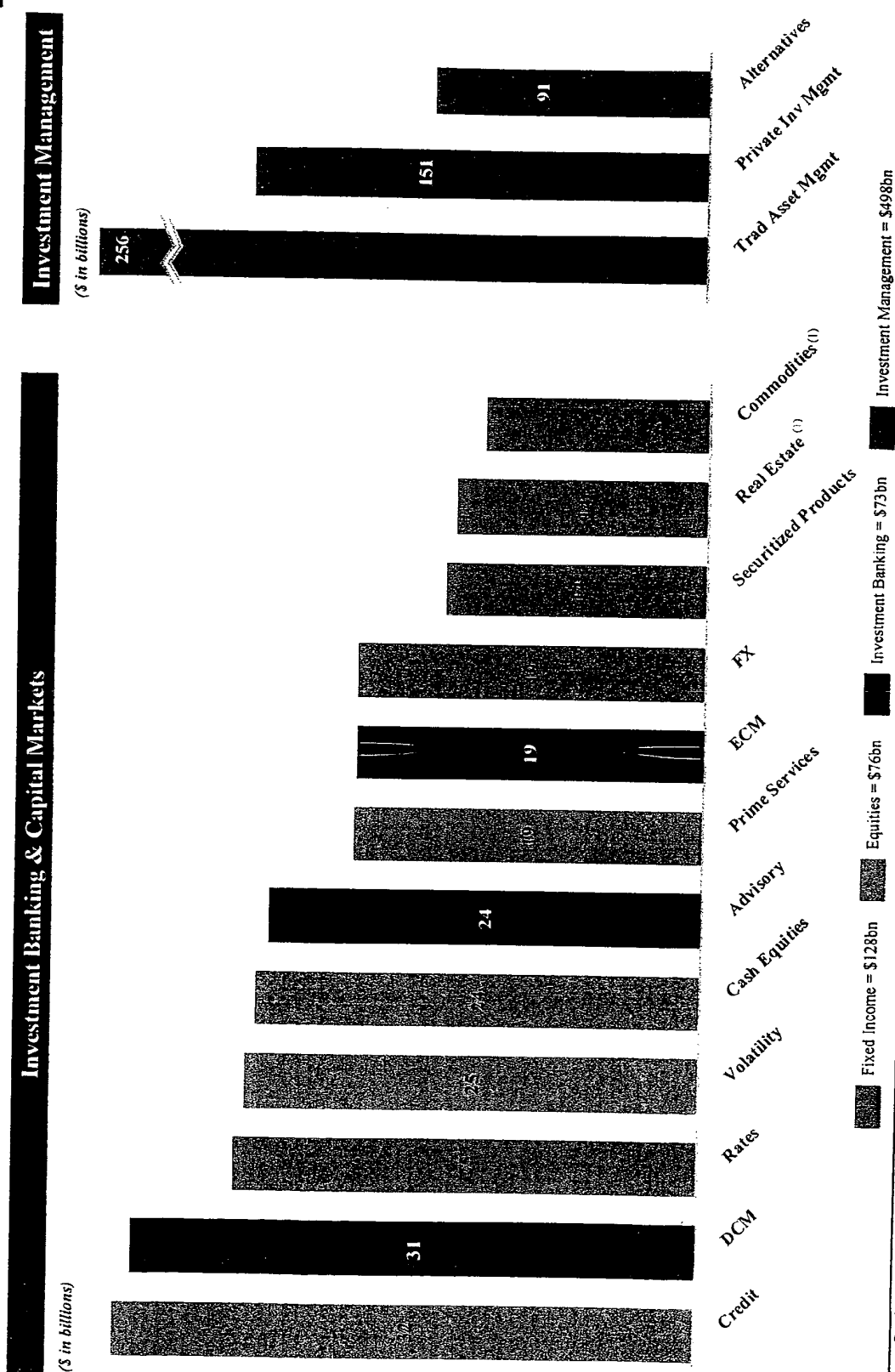


Note: Significant presence in 2005: 10+ headcount / \$1B market revs or country office;  
New presence since 2005: 10+ headcount / \$1B market revs or country office since 2005;  
Limited presence = < 10 headcount / \$1B market revenues or no country office

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# Businesses – 2006 Global Revenue Pools



Note: Credit includes high yield, high grade, CDO, emerging markets and municipals. Securitized products includes mortgages and structured finance  
(1) Includes revenues generated from Financial Institutions only; significant additional fees from non-traditional competitors

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# Businesses – Competitor Benchmarking

## 2006 Competitor Revenue By Product

(\$ in billions)

	Lehman Brothers	Bear Stearns	Goldman Sachs	Morgan Stanley	Merrill Lynch	Citigroup	J.P. Morgan	Credit Suisse	Deutsche Bank	UBS
<b>Interest Rate Products</b>										
Foreign Exchange	0.1	0.0	0.0	0.1	0.6	2.2	0.2	0.2	0.3	0.9
Real Estate	1.8	0.3	1.1	1.5	0.4	1.1	1.0	0.5	0.3	0.3
Mortgages	1.6	0.7	0.5	0.6	0.4	1.1	1.0	0.5	0.3	0.3
<b>Emerging Markets</b>										
High Yield	0.2	0.1	0.3	0.3	0.4	1.0	1.0	0.3	0.3	0.3
Commodities	0.0	0.0	3.0	2.8	1.0	1.0	0.6	0.3	0.6	0.6
Prime Services – Fixed Income	0.1	0.1	0.8	0.4	0.3	0.5	0.5	0.2	0.5	0.5
High Grade Credit	0.7	0.7	0.7	0.5	0.6	0.5	0.4	0.1	0.5	0.5
Structured Finance	0.3	0.2	0.0	0.3	0.3	0.3	0.6	0.3	0.6	0.6
CDO	0.3	0.3	0.0	0.3	0.3	0.3	0.6	0.3	0.6	0.6
Municipals	0.3	0.3	0.0	0.3	0.3	0.3	0.6	0.3	0.6	0.6
Fixed Income Prop / Principal / Other	0.3	0.3	0.0	0.3	0.3	0.3	0.6	0.3	0.6	0.6
<b>Total Fixed Income</b>	<b>\$4.1</b>	<b>\$4.1</b>	<b>\$13.5</b>	<b>(0.1)</b>	<b>\$7.3</b>	<b>\$11.0</b>	<b>(1.1)</b>	<b>1.6</b>	<b>\$11.4</b>	<b>\$6.4</b>
<b>Execution Services</b>										
Volatility	1.1	0.3	2.3	2.3	1.7	1.3	1.1	0.2	1.5	2.2
Prime Services – Equities	1.2	1.2	1.5	1.5	0.2	0.3	0.1	0.2	2.0	2.2
Convertibles	0.2	0.0	0.2	0.2	0.2	0.2	0.0	0.0	0.1	0.1
<b>Equities Prop / Principal</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.0</b>	<b>0.9</b>	<b>0.2</b>	<b>0.4</b>	<b>1.5</b>	<b>0.1</b>	<b>1.5</b>
Other Equities	0.0	0.0	0.5	0.0	0.9	0.0	0.0	0.0	0.0	0.4
<b>Total Equities</b>	<b>\$2.8</b>	<b>\$2.8</b>	<b>\$0.9</b>	<b>\$0.0</b>	<b>\$6.7</b>	<b>\$2.4</b>	<b>\$3.1</b>	<b>\$0.0</b>	<b>\$1.6</b>	<b>\$6.8</b>
Private Equity & Other Principal	0.2	0.1	1.1	1.5	N/A	0.9	0.8	0.8	0.8	0.8
<b>Prime Services (Mortgage)</b>	<b>\$7.7</b>	<b>\$7.7</b>	<b>\$3.0</b>	<b>\$2.7</b>	<b>\$0.8</b>	<b>\$0.9</b>	<b>\$0.8</b>	<b>\$0.8</b>	<b>\$0.8</b>	<b>\$0.8</b>
<b>Total Advisory</b>	<b>\$0.9</b>	<b>\$0.5</b>	<b>\$2.6</b>	<b>\$1.8</b>	<b>\$1.7</b>	<b>1.2</b>	<b>2.7</b>	<b>1.8</b>	<b>1.0</b>	<b>1.5</b>
Equity Underwriting	0.7	0.2	1.4	1.4	0.7	0.7	0.8	0.8	0.7	0.4
Debt Underwriting	1.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Bonds	0.4	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Loans	0.3	0.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other Debt Origination	0.3	0.1	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
<b>Total Investment Banking</b>	<b>\$2.9</b>	<b>\$1.1</b>	<b>\$5.6</b>	<b>\$2.7</b>	<b>\$2.7</b>	<b>\$5.3</b>	<b>\$5.5</b>	<b>\$4.1</b>	<b>\$3.6</b>	<b>\$4.1</b>
<b>Institutional Investment Banking</b>	<b>\$18.2</b>	<b>\$8.1</b>	<b>\$11.4</b>	<b>\$21.7</b>	<b>\$17.1</b>	<b>\$23.6</b>	<b>\$23.6</b>	<b>\$17.1</b>	<b>\$17.1</b>	<b>\$17.1</b>
<b>Asset Management</b>										
<b>Total Traditional</b>	<b>\$0.2</b>	<b>\$0.2</b>	<b>\$2.3</b>	<b>\$2.3</b>	<b>N/A</b>	<b>\$0.0</b>	<b>\$2.9</b>	<b>\$2.9</b>	<b>\$2.9</b>	<b>\$2.9</b>
Alternative Investments	0.4	0.2	2.2	2.2	N/A	0.0	0.0	0.0	0.0	0.0
<b>Total Asset Management</b>	<b>\$0.4</b>	<b>\$0.4</b>	<b>\$4.5</b>	<b>\$4.5</b>	<b>N/A</b>	<b>\$0.5</b>	<b>\$3.9</b>	<b>\$3.9</b>	<b>\$3.9</b>	<b>\$3.9</b>
<b>Private Investment Management</b>										
Wealth Management (FHNW)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private banking	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Middle Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Private Investment Mgmt.</b>	<b>\$1.0</b>	<b>\$0.8</b>	<b>\$1.8</b>	<b>\$1.8</b>	<b>\$1.8</b>	<b>\$5.0</b>	<b>\$6.5</b>	<b>\$8.4</b>	<b>\$7.0</b>	<b>\$8.4</b>
<b>Total Investment Management</b>	<b>\$2.4</b>	<b>\$1.2</b>	<b>\$3.7</b>	<b>\$3.7</b>	<b>\$3.7</b>	<b>\$9.6</b>	<b>\$6.6</b>	<b>\$8.4</b>	<b>\$7.0</b>	<b>\$8.4</b>
<b>Total Comparable Revenue</b>	<b>\$17.6</b>	<b>\$9.3</b>	<b>\$17.7</b>	<b>\$33.9</b>	<b>\$14.7</b>	<b>\$38.0</b>	<b>\$64.6</b>	<b>\$30.9</b>	<b>\$35.1</b>	<b>\$38.4</b>
<b>Total Revenue</b>	<b>\$17.6</b>	<b>\$9.3</b>	<b>\$17.7</b>	<b>\$33.9</b>	<b>\$14.7</b>	<b>\$38.0</b>	<b>\$64.6</b>	<b>\$30.9</b>	<b>\$35.1</b>	<b>\$38.4</b>

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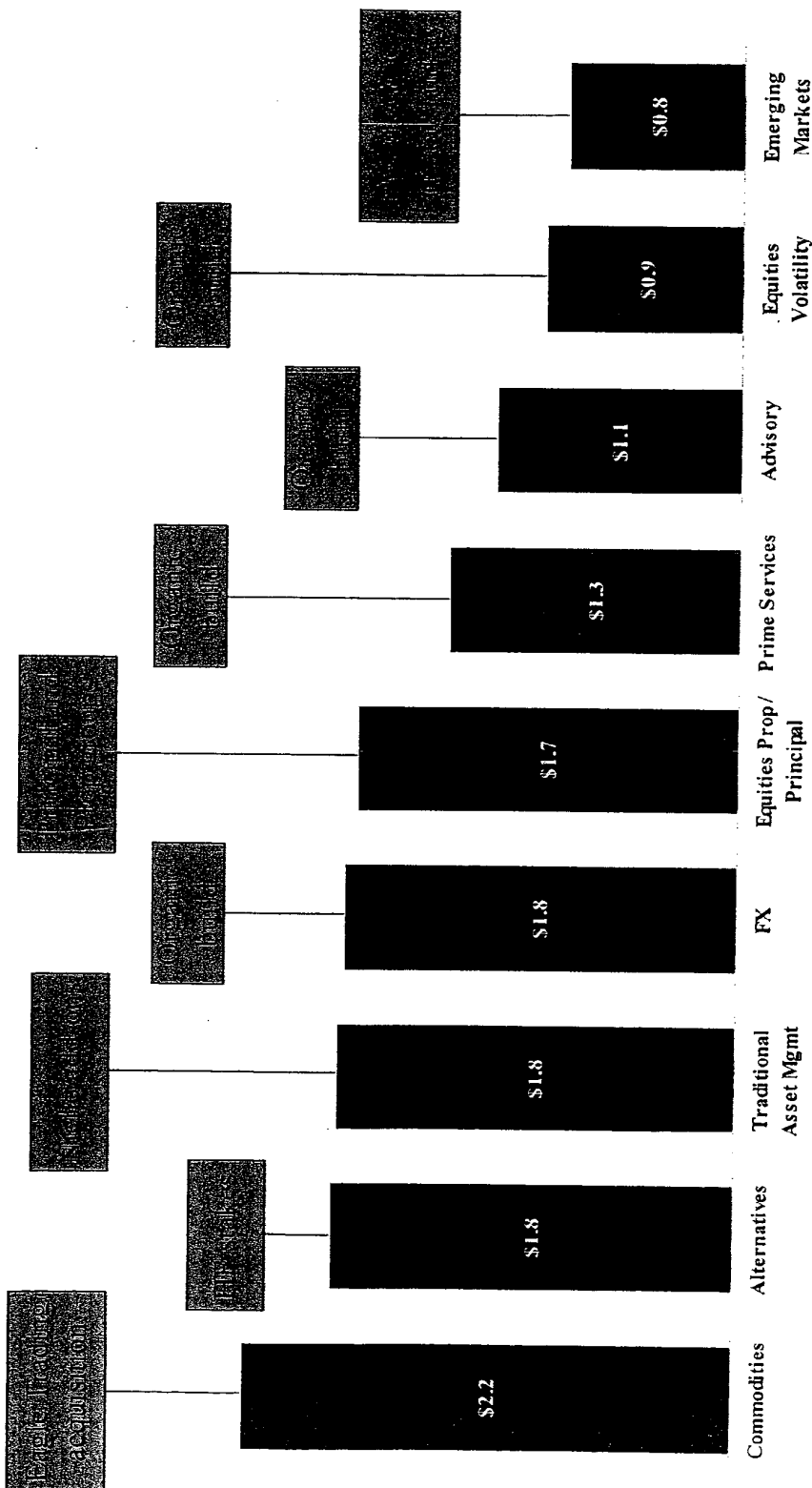
Rank #1-3 Rank #4-7 Rank #8-10

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# Businesses – Largest Global Revenue Gaps

## Lehman Revenue Gaps to Average of Top 3 Global Competitors

(\$ in billions)



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# Businesses – Client Revenues

## Top 20 Clients by Revenue: 2002 vs. 2006

\$ million

Hedge Funds Sponsors

### 2002

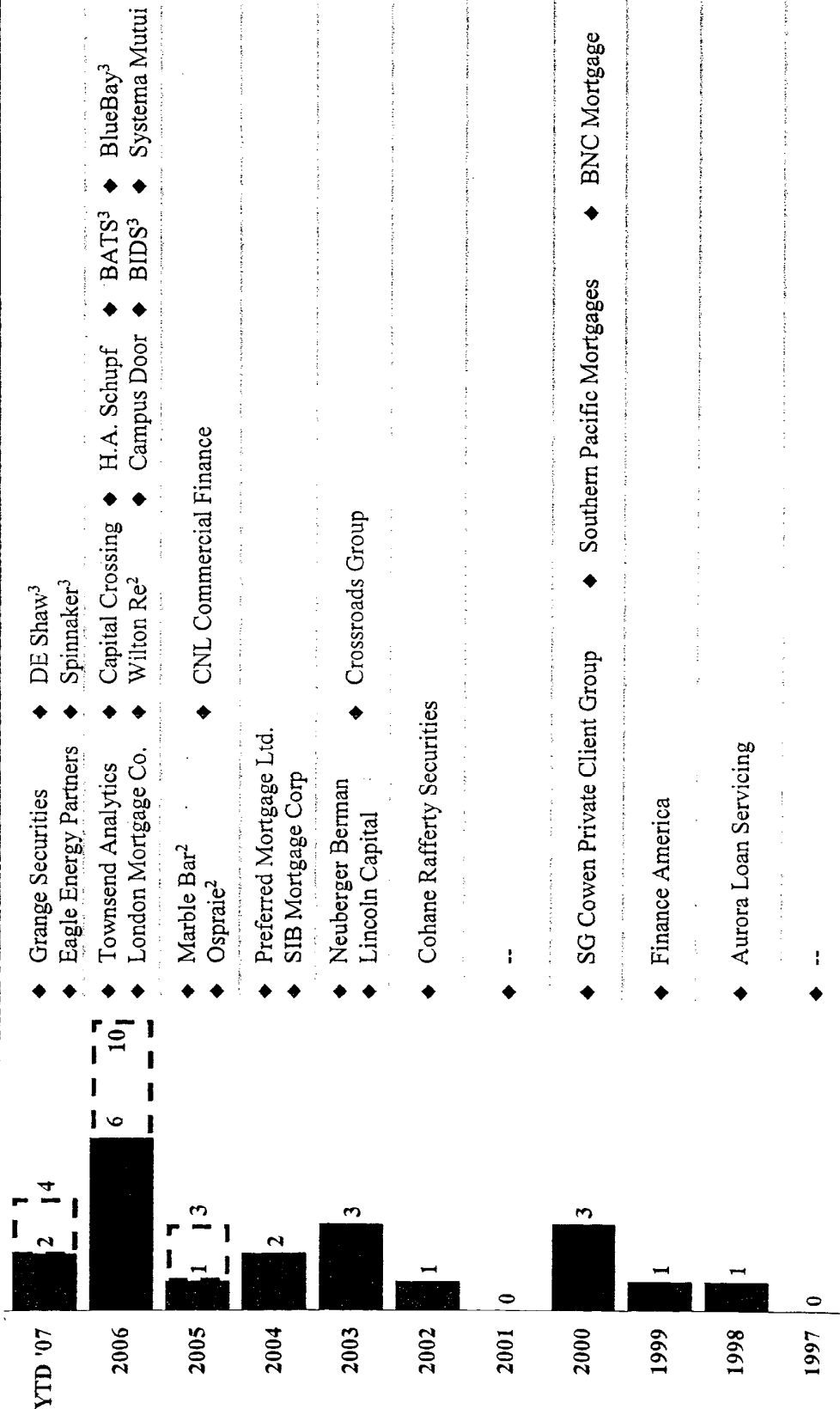
### 2006

Rank	Client	Revenue	Rank	Client	Revenue
1	Fidelity	86	1	Fidelity	123
2	Windsor		2	Carlyle Group	118
3	Williams Companies	60	3	Capital Research	71
4	GE	60	4	Capital Research	71
5	Telecom Italia	59	5	Capital Research	71
6	AllianceBernstein	58	6	Western Asset Management	66
7	Blackrock	55	7	Western Asset Management	66
8	Putnam	47	8	Blackrock	60
9	PG & E	47	9	Hertz	59
10	CIT Group	46	10	Republic Of Italy	56
11	IKB Deutsche Industriebank	45	11	Bank of America	52
12	Bank of America	43	12	Bank of America	52
13	PIMCO	43	13	PIMCO	51
14	Poste Vita	40	14	PIMCO	51
15	Deutsche Asset Management	40	15	PIMCO	51
16	Tesoro	39	16	GE	46
17	Windsor		17	Barclays Global Investors	45
18	Morgan Stanley Inv Mgmt	36	18	Barclays Global Investors	45
19	JP Morgan Asset Mgmt	36	19	Barclays Global Investors	45
20	Pioneer Inv Mgmt	35	20	Barclays Global Investors	45
		Total HF and Sponsor Revenue			3,650
		Total IB and Cap Mkts Client Revenue			10,955
		25%			33%

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# Acquisitions and Strategic Investments

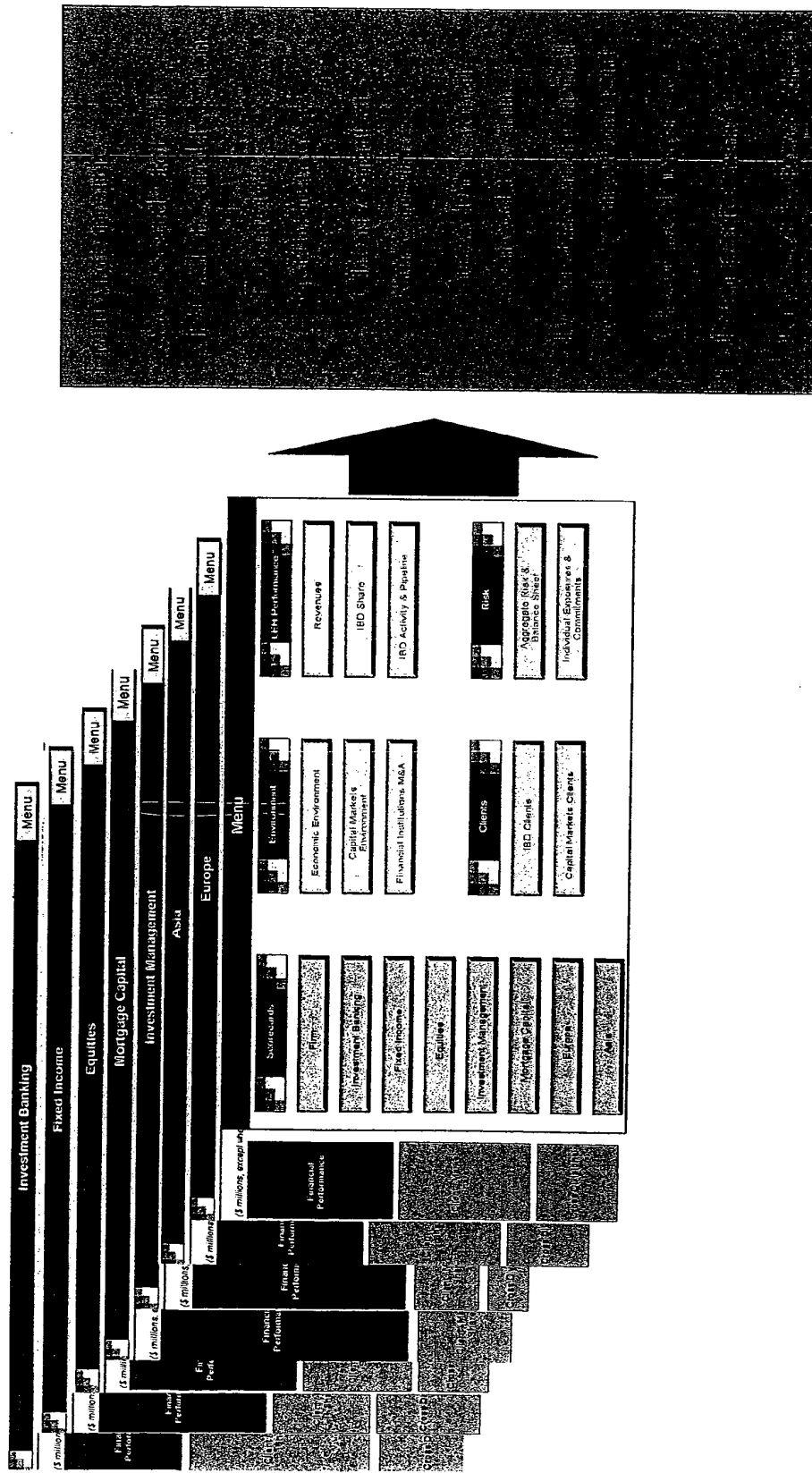
## Firm Acquisitions and Strategic Investments, 1997-2007 YTD<sup>1</sup>



1. Excludes acquisitions of loan/mortgage portfolios, real estate, and private equity investments.  
2. Strategic partnership with option to acquire 100% in 2009.  
3. Minority stakes.

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# Managing and Monitoring – Firmwide Metrics



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# Capital Strategy

Strategic use of our capital base is key pillar of our growth strategy

## Strategic Deployment of Our Growing Capital Base

- ◆ Substantial Capacity
  - Capital base growing at 20– 25% per year
  - Net income expansion
  - Capital efficiency
- ◆ Strong Capabilities
  - Risk management expertise and culture
  - Broad franchise



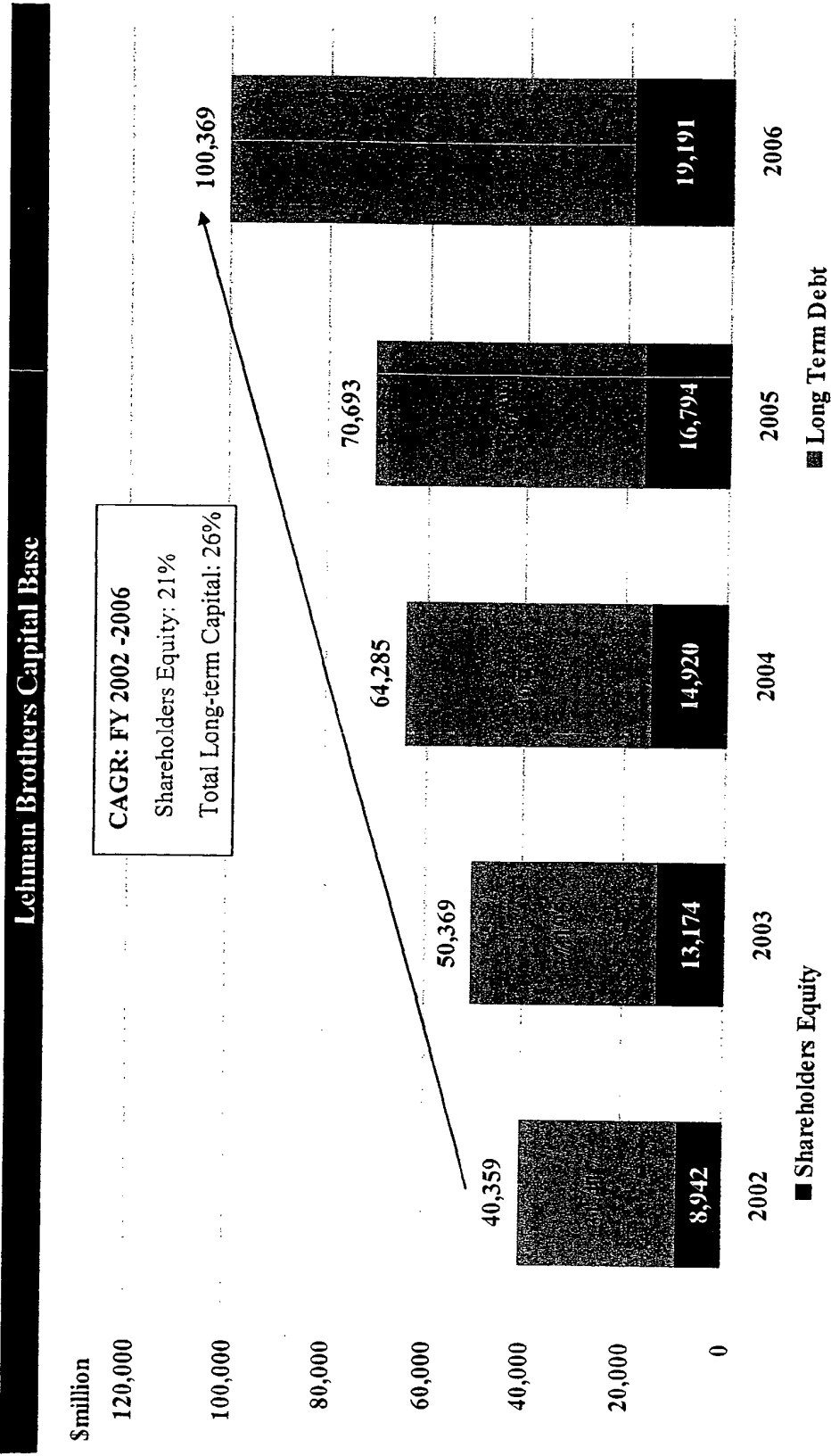
- ◆ Capitalize on our category and capabilities to further diversify our business model
  - Additional focus on principal opportunities
  - Acceleration of acquisitions and JVs

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# Equity and Capital Growth Over Time

Lehman Brothers' total equity and capital base has grown 20-25% per year



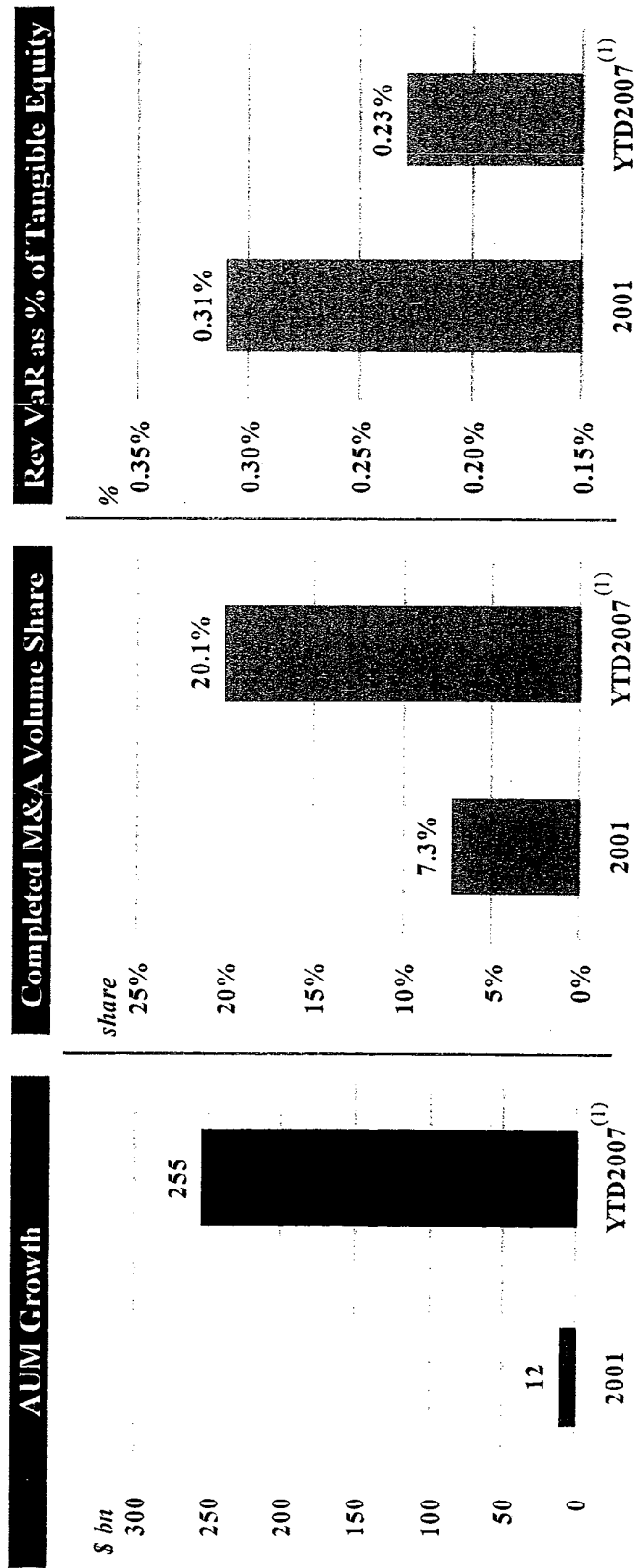
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# Reduction in Capital Intensity

Two key factors contributing to reduction in capital intensity of base business:

1. Significant growth of low capital intensity businesses
2. Increased efficiency in capital markets businesses partly as a result of the sophistication of hedging products



As of April 30, 2007

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# Global Principal Investing

Lehman Brothers global principal business is leveraging our market position and deal flow access to build the portfolio

## Global Principal Investing

### Competitive Advantage

- ◆ Leverage internal deal flow globally across the Firm
- ◆ Capitalize on Lehman's advantage in accessing opportunities as a result of our business and market position

### Capabilities

- ◆ 28,000 employees, significant potential to source opportunities
- ◆ Strong risk management expertise and culture
- ◆ Strong Banking and Sponsors franchise to source deals
- ◆ Seasoned investment professionals across several principal businesses

### Market Trends

- ◆ Sponsors turning to Banks for LBO equity capital as club deals under increasing scrutiny, creating opportunities for Investment Banks
- ◆ Substantial growth in emerging economies creates opportunities
  - Principal participation can accelerate our entrance as we build client franchise

### Attractive Financials

- ◆ Highly ROA, ROE and comp accretive for Lehman Brothers if executed successfully

### Lehman Initiatives

- ◆ Global expansion of principal capabilities / activities
- ◆ Incentive program to motivate internal sourcing of opportunities
- ◆ External partnerships / JVs to generate two-way principal flow
- ◆ Firm-wide communication on enhanced principal efforts

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# Principal Investing Framework

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Investments are evaluated in the context of our principal framework

## Key Principles

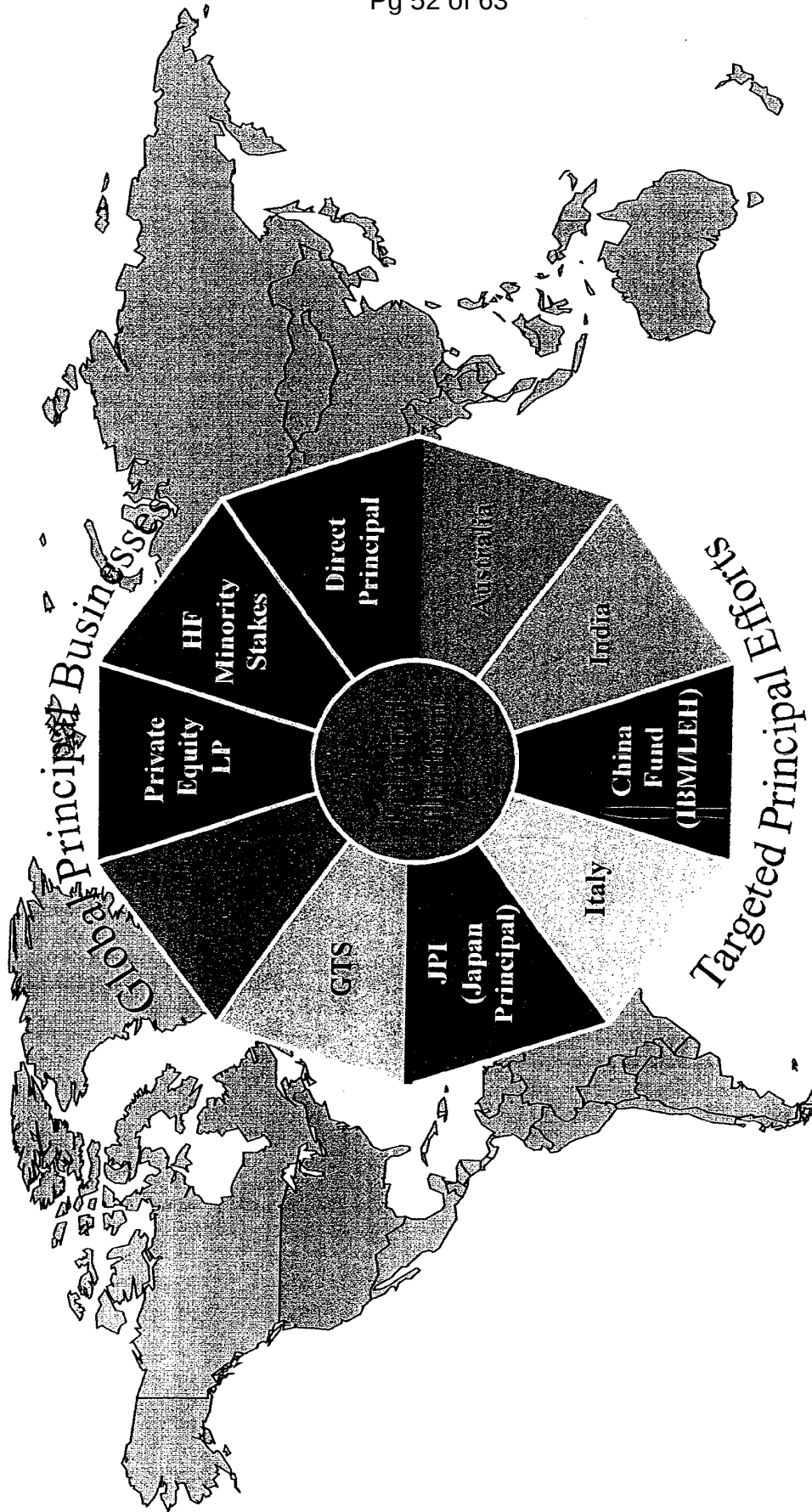
- ◆ Invest in a diversified manner across asset classes, sectors, geographies and currencies
- ◆ Ensure an overall global balanced portfolio avoiding over-concentration in any one area
- ◆ Optimize risk-adjusted returns and minimize volatility
  - Target IRR > 16% to maintain ROE accretion of Principal business
- ◆ Leverage full capabilities of the Firm in sourcing unique opportunities
- ◆ Protect client relationships – invest in partnership with our clients
- ◆ Ensure that obligations to the LPs in our Private Equity Funds are fulfilled

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# Global Principal Investing Platform



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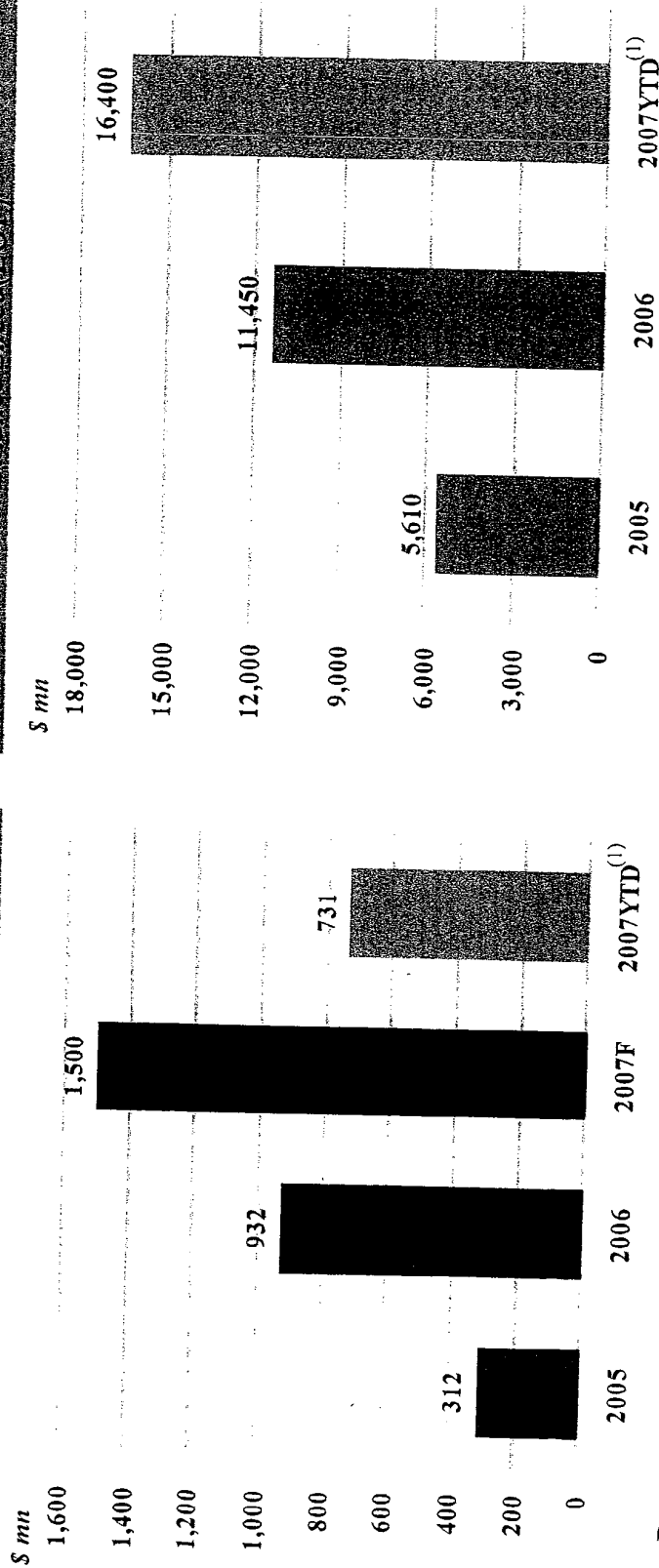
# Principal Financials

Principal Investing business projected to increase revenues by 60% in 2007 to reach \$1.5bn. Significant balance sheet capacity added to accommodate growth

## Global Principal Investing

### Revenues

### Net Balance Sheet (EOP)



◆ Returns from private transactions often require a longer time horizon for return realization. Thus, capital deployed in 2007 may only see returns in 3-5 year period

1. As of April 30, 2007

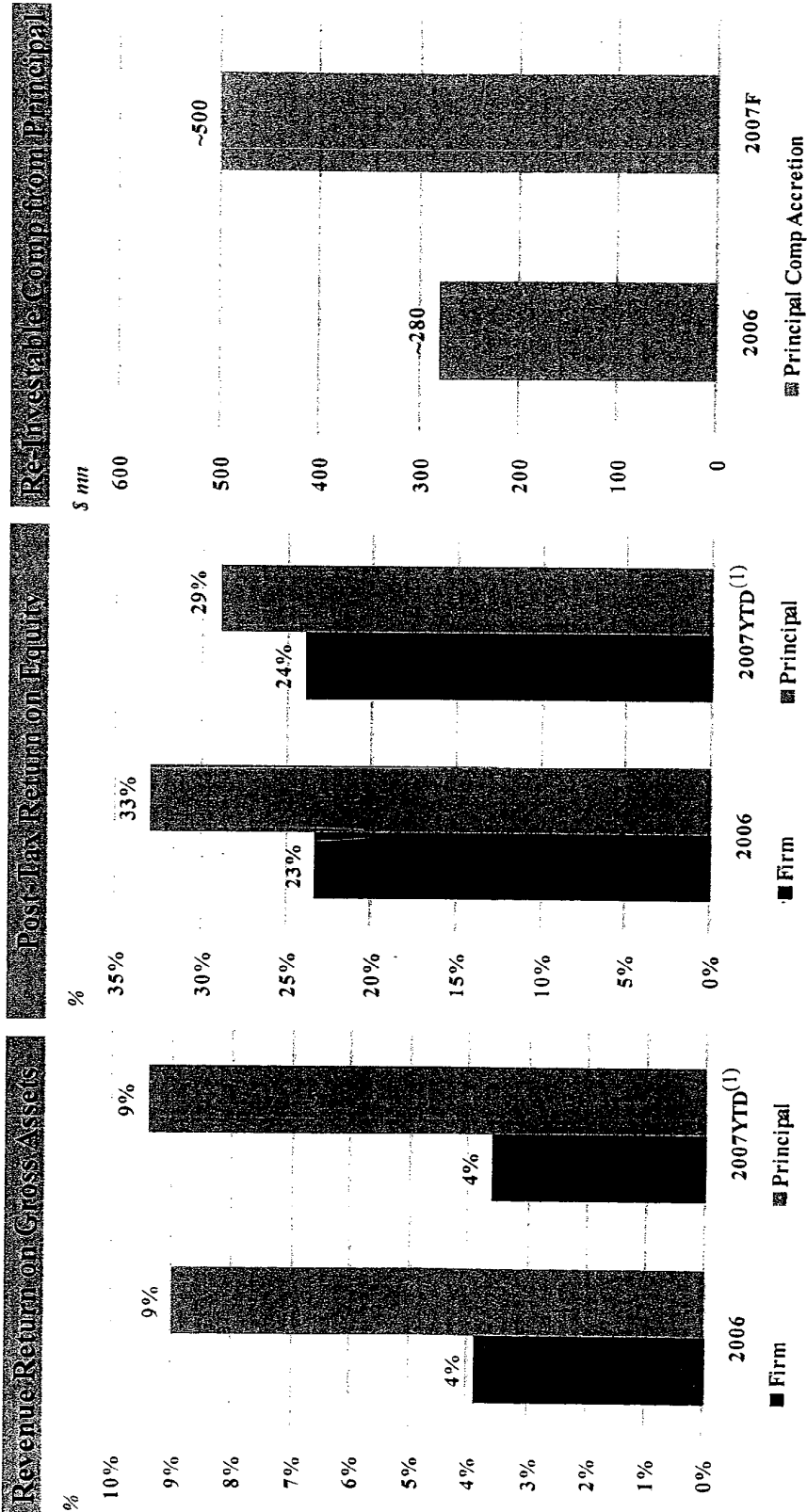
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# Principal Performance

Principal business is RROA, ROE and comp accretive to the Firm

## Global Principal Investing



1. As of April 30, 2007

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# Joint Venture / Partnerships Priorities

## Types of JV Opportunity

Types of Opportunity	Focus Areas	Advantages
<b>1. Broad Local Market JV</b> Combine Lehman and partner operations in partner's local market (in whole or in part)	<ul style="list-style-type: none"> <li>Asia: China (CITIC), India</li> <li>Europe: Turkey (Garanti Bank), Middle East (KIA)</li> <li>Americas: Canada, Brazil, Mexico</li> </ul>	<ul style="list-style-type: none"> <li>Leverages partner's local market presence and LEH product capabilities</li> <li>Builds immediate critical mass in local market</li> <li>Avoids cost of full scale build out</li> <li>Examples: Nikko/Citi, MS/CICC</li> </ul>
<b>2. Capital JV</b> Leverage partner capital to: <ul style="list-style-type: none"> <li>a) Provide balance sheet to Lehman clients, or</li> <li>b) Take equity stake in Lehman</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition finance risk transfer solution (e.g., Norinchukin, Mizuho)</li> </ul>	<ul style="list-style-type: none"> <li>a) Increases risk Firm can take                             <ul style="list-style-type: none"> <li>Examples: GS/Sumitomo, LEH/Sumitomo</li> </ul> </li> <li>b) Provides stable, supportive, long-term equity holder                             <ul style="list-style-type: none"> <li>Examples: multiple European banks</li> </ul> </li> </ul>
<b>3. Product Distribution JV</b> Leverage partner's client relationships to distribute limited number of Lehman products	<ul style="list-style-type: none"> <li>AM distribution platforms</li> <li>Non-conforming mortgage origination</li> <li>Middle market financing in India</li> <li>Commodities</li> </ul>	<ul style="list-style-type: none"> <li>Leverages partner's relationships</li> <li>Requires limited incremental investment                             <ul style="list-style-type: none"> <li>Examples: Rothschild/ABN, IKB/Unicredito</li> </ul> </li> </ul>

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# Example of Key Transactions

We have completed a number of large principal transactions as well as strategic minority stakes, acquisitions and partnerships

## Example of Principal Transactions / Acquisitions / Partnerships



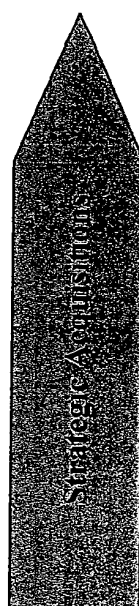
- ◆ TXU (\$500M)
- ◆ BAWAG (\$150M)
- ◆ First Data Corp (\$250M)
- ◆ Freescale (\$120M)



- ◆ Taj Capital (\$250M)
- ◆ Edelweiss Capital (~\$80M)
- ◆ AEON Bank (~\$50M)
- ◆ Kingdee (IBM/LEH China)
- ◆ Aviation Finance
- ◆ Global Private Equity Funds



- ◆ DE Shaw (20%)
- ◆ Ospraie (20%)
- ◆ Spinnaker (25%)
- ◆ Marble Bar (20%)
- ◆ GLG (15%)



- ◆ Eagle Energy
- ◆ Campus Door
- ◆ Grange Securities
- ◆ Wilton RE
- ◆ Capital Crossing



- ◆ Sumitomo Capital Capacity
- ◆ Systema (Italy Mortgage JV)
- ◆ IBM China Private Equity JV
- ◆ Flow agreements: Alliance & Leicester, Stepstone, Casa
- ◆ Hua An Asset Management

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# Example of Pipeline Transactions

We have a very robust pipeline of potential principal, partnership and acquisition opportunities

Principal	Minority Stakes / Acquisitions	JVs / Partnerships
<u>Co-Investments</u> <ul style="list-style-type: none"> <li>◆ Tokyo Star Bank</li> <li>◆ Alltel</li> <li>◆ Modern Luxury</li> <li>◆ Harman Int'l</li> <li>◆ Alliance Boots</li> <li>◆ Klockner Pentaplast</li> </ul>	<u>Minority Stakes in Hedge Fund Managers</u> <ul style="list-style-type: none"> <li>◆ Moore Capital</li> <li>◆ Millennium Partners</li> <li>◆ Ore Hill Partners</li> <li>◆ Brevan Howard</li> <li>◆ Magnetar Capital</li> <li>◆ Asia Debt Management</li> </ul>	<u>Broad JV</u> <ul style="list-style-type: none"> <li>◆ Kuwait Investment Authority (KIA)</li> <li>◆ CITIC</li> <li>◆ Norinchukin</li> <li>◆ Standard Chartered</li> <li>◆ Mizuho</li> <li>◆ Santander</li> <li>◆ Garanti Bank (Turkey)</li> <li>◆ Riyad Bank</li> <li>◆ Huatai Securities</li> </ul>
<u>Private Equity</u> <ul style="list-style-type: none"> <li>◆ SkyPower (Canada wind farm)</li> <li>◆ Polaris Renewable (China wind farm)</li> <li>◆ Mongolia Toll Road</li> <li>◆ KingCarrier (China)</li> <li>◆ EuroSIM (Italy)</li> </ul>	<u>Strategic Acquisitions</u> <ul style="list-style-type: none"> <li>◆ Martin Currie (IMD)</li> <li>◆ Bluestone (MCD - AU)</li> <li>◆ RGA (Life reinsurer)</li> <li>◆ BRICS' (India equity-focused broker)</li> <li>◆ IndyMac (MCD)</li> <li>◆ Corus Bank (Comm'l RE lender)</li> </ul>	<u>Product / Distribution JV</u> <ul style="list-style-type: none"> <li>◆ Cheung Kong (Mortgage flow)</li> <li>◆ Scotiabank (China derivatives)</li> <li>◆ Magma (India securitization)</li> </ul>
<u>Fund Investments</u> <ul style="list-style-type: none"> <li>◆ Ramius</li> <li>◆ ZM Capital</li> <li>◆ GreenTech</li> </ul>		<u>Capital JV</u> <ul style="list-style-type: none"> <li>◆ Bayern LB</li> <li>◆ AMBAC</li> </ul>

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## Summary

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- ◆ Our strategy consists of a disciplined approach to identifying and addressing the most important global opportunities
- ◆ We have developed action plans against critical strategic gaps
  - By geography, business and client
- ◆ We are increasingly using our capital to invest in acquisitions, strategic stakes and principal opportunities
  - Acquisitions and strategic investments enable us to close gaps in key markets and businesses
  - Growing global network and increasing equity base provide greater opportunities for principal
    - Increasingly important and profitable complement to our core client franchise

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Board and Board Committee Consents  
5/15/07 Board Meeting

**SUMMARY OF BOARD AND BOARD COMMITTEE CONSENTS FOR LEHMAN  
BROTHERS HOLDINGS INC. ("HOLDINGS")**

<u>DATE</u>	<u>SUMMARY</u> (Executive Committee Action by Written Consent unless otherwise noted)
1. <u>April 16, 2007</u> (Dividend Committee)	Declared a regular monthly dividend on Holdings' Floating Rate Cumulative Preferred Stock, Series G.
2. <u>April 24, 2007</u> (Dividend Committee)	Declared a regular quarterly dividend on Holdings' Common Stock of \$.15 per share.
3. <u>April 24, 2007</u> (Dividend Committee)	Declared a regular quarterly dividend on Holdings' Cumulative Preferred Stock, Series C, D and F.
4. <u>May 2, 2007</u> (Eagle Energy Partners)	Authorized acquisition of Eagle Energy Partners I, L.P. and its general partner, Eagle Energy Management, LLC, a Houston-based energy services provider focused on the management of physical natural gas and power assets for third parties and on the management and delivery of natural and electric power in the U.S. and Canada.

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LB 009254

FOIA CONFIDENTIAL TREATMENT REQUESTED  
BY LEHMAN BROTHERS HOLDINGS INC.

LBHI\_SEC07940\_026164

Board and Board Committee Consents  
5/15/07 Board Meeting

**SUMMARY OF BOARD AND BOARD COMMITTEE CONSENTS FOR LEHMAN  
BROTHERS INC. ("LEHMAN")**

**DATE**

**SUMMARY**

(Executive Committee Action by Written Consent  
unless otherwise noted)

1. April 10, 2007  
(Titles)

Approved corporate and non-corporate titles for  
fourth quarter 2006 and first quarter 2007.

Sabia, Cindy

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From: on behalf of Russo, Thomas A  
To: Board of Directors  
Subject: WSJ

The following note was sent to us by *The Wall Street Journal* on May 11th, and we sent the below response on May 14th.

Dear Ms. Burns:

I'm Mike Hudson's editor at *The Wall Street Journal* and I'm writing in response to the email you sent him on May 4. I first wanted to reiterate how grateful the Journal is for the time Lehman has devoted to responding to Mike's questions, and for the many details you've provided. Your efforts will enable us to reflect Lehman's perspective in any article we publish, and help us to avoid publishing inaccurate information to our readers. Lehman may or may not be pleased with our coverage, but please let me assure you that whatever stories we run are based on our reporting and not on any preconceived notions or biases.

Thanks again for your cooperation.

Sincerely,

Jon Hilsenrath

The below was sent Monday evening to an editor at *The Wall Street Journal*.

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#### FOR BACKGROUND PURPOSES ONLY

Dear Mr. Hilsenrath,

Thank you very much for your note. We appreciate your reaching out. Our concern is exactly what you highlighted; namely, all the evidence so far indicates that the story is the product of "preconceived notions or biases." We are writing now to share some specific information that has come to our attention to help you understand our point of view.

When we started talking to Mr. Hudson, we became concerned about the credibility of the sources being cited. Specifically, it appeared to us that his reporting was relying on a highly biased sampling of interviewees and was extrapolating from negative information to make generalizations about our company. It seemed to us that the reporting effort was discounting or ignoring positive information readily available from outside sources -- and that we provided in written responses to Mr. Hudson's questions -- and was instead relying on selective and dated information. Finally, we were confused by an apparent refusal to look more broadly at this as an industry-wide issue, or at the very least to put Lehman Brothers and BNC in the context of an admittedly difficult industry, and how we compare to other players, in order to paint a more accurate picture. At the time, this was simply how it seemed to us.

Then we began to receive information from individuals Mr. Hudson had contacted, and that information confirmed our early perception.

We received two **unsolicited** calls from former employees who had been contacted by Mr. Hudson well before he approached us. We followed up with them to obtain a fuller understanding of their conversations with Mr. Hudson after we received a *third* unsolicited call (described below). Both of them told us that they gave Mr. Hudson positive information about BNC's control environment and had compared BNC favorably to other lenders in that regard. One of them told us that Mr. Hudson kept trying to lead her down a negative path by making statements such as, "It seems that BNC has a lot of problems with fraud," and that Mr. Hudson did not follow up on the positive information she was

providing. She said that she repeatedly told him that he was "barking up the wrong tree" by focusing on BNC. The other former employee said he told Mr. Hudson (just as we did) that the fraud allegations reported to him by the Sacramento plaintiffs were brand new, and told him (just as we did) that once he had done his research, he would learn that the allegations were without merit and that the plaintiffs were simply trying to embellish a lawsuit that has no basis.

It troubled us that none of this information seemed to have an impact on the way in which the story appeared to be unfolding.

Then we received the third unsolicited call from someone contacted by Mr. Hudson. The information provided by this third party (who has never been an employee) was troubling. According to this third party, Mr. Hudson called him several weeks ago and asked him for "dirt on BNC." He said he informed Mr. Hudson that Lehman Brothers is proactive in investigating mortgage fraud and identified a competitor who was not. He said Mr. Hudson responded that this information would not help him with "what [he was] trying to do." When he asked what Mr. Hudson was trying to do, according to this person, Mr. Hudson responded, "**slam Lehman.**" This third party further reported to us that at another point in the conversation, Mr. Hudson made the statement that he was "**looking to slam Lehman Brothers, and BNC was how [he] would get there.**" This individual was sufficiently concerned by this and took it upon himself to contact his in-house counsel and BNC to report it. He even said that he would welcome an opportunity to provide this information directly to the appropriate *Wall Street Journal* editors. We encourage you to speak to him so that you can hear from him directly rather than take our word for it.

We were going to raise this information earlier. However, when Mr. Hudson told us he was going to walk us through the story, we decided to wait. We were hopeful --based on all of the information we had provided -- that the story would be fair. Unfortunately, when Mr. Hudson read us portions of the story on May 3<sup>rd</sup>, we were disappointed to hear a biased and inaccurate story. At best it seemed like the story was going to include lots of colorful, negative information about us from some less than credible sources, and then follow it with our perfunctory denials. As it piled on, the end picture would appear extremely negative, even if it is totally at odds with reality.

We have been working with Mr. Hudson for weeks to provide him with access to numerous personnel on both coasts, including his visit to BNC at our invitation, and we have spent many hours providing detailed information in response to every one of his questions. While we were concerned about an apparent bias that seemed evident early on, and were worried about his approach in past stories, we hoped for balance. We certainly understand your point that we may not be happy with everything written about us and understand that negative things are sometimes written. However, we hope you can appreciate that as this process has worn on, and as more evidence and data points of bias have cropped up, our sense that we aren't going to see a balanced story has grown stronger. It seems that this effort has the earmarks of a pre-destined mission to "slam Lehman."

We rarely complain about the *Journal's* coverage, even when you have written tough and unpleasant stories about us. The reason we have worked so hard here to provide information and access to a reporter is because of the mismatch between the 'facts' he has presented us and the company we know. For these reasons, we really appreciate the note you sent us and the attention you are paying to this situation.

Sincerely,

Hannah Burns

Holdings May 2007 Meeting  
Seating Plan

Windows

	John Akers
Jeff Welikson	Roger Berlind
Tom Russo	Marsha Johnson Evans
Dick Fuld	Henry Kaufman
Joe Gregory	Sir Christopher Gent
Chris O'Meara	Roland Hernandez
	Thomas Cruikshank
	John Macomber

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